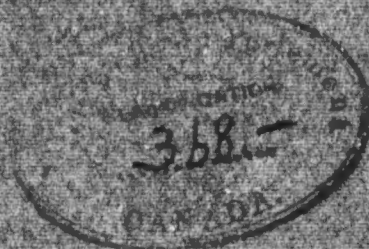


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The
Rights of the Policy-Holders
AND
The Benefits from Properly
Regulated Insurance



By
J. I. HARPELL B.A.
Toronto
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The Rights of the Policy-Holders and the Benefits of Properly-Regulated Insurance.

INTRODUCTION

The benefit to be derived from the present insurance agitation and investigation will be directly proportionate to the amount of interest taken in the matter by the intelligent and thoughtful classes of the people. Furthermore, this interest must extend to a careful consideration of the fundamental questions if the best results are to be obtained. It will be most unfortunate if the present popular interest in the subject exhausts itself on such relatively superficial and subordinate phases of the matter as the investment of the funds, while the more important issues are lost sight of in a maze of scandals and personalities which can result only in arousing the uttermost of feelings among various factions.

The two fundamental questions in which all earnest people are interested are: (1) What is the proper cost of life insurance and how can it best be procured for the policyholder at that cost. (2) In what way can life insurance be made of the greatest value to the policyholder both as regards himself and as regards his relation to the state.

As Professor A. H. Willett of Brown University, has put it, "It is safe to say that in no other field of economic

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activity are so many millions of dollars paid by intelligent people with so little idea of what they are buying as in life insurance." This is truer in Canada than in any other country of the same size in the world.

The general current opinions and knowledge which the public have on any particular subject depend upon the literature which the country possesses on the subject and the teaching and writings of those who have given it their attention and study. Canada possesses no literature on the subject of life assurance. There are a few insurance journals, but they are little more than organs of the companies. As for imported literature we are in no better position. We have none, so far as the writer is able to ascertain, except articles that have appeared from time to time in the foreign popular magazines. The libraries at Toronto and Ottawa, which are considered the best in Canada, contain nothing of value to the student of life insurance or actuarial science.

With regard to teachers, we are in an even more deplorable condition. In the larger cities, where there are head offices of companies, the officials have formed themselves into associations known as Insurance Institutes. At the meetings of these Institutes papers are read on various topics, and in a general way instruction is given to the juniors or students. But, as might be expected, the whole trend of such training is to do little more than inculcate a respect on the part of the students for existing principles and practices of the companies.² No matter how vicious the managers may believe these practices to be—as is evident from Exhibit 237 in the present insurance investigation³—yet these weak-

²The reference here is to the Life Insurance Branch of the Institutes. As a member of the Insurance Institute of Toronto the writer was particularly interested in the Life Insurance Branch and gave little attention to any of the others. He is therefore not in a position to say whether the same policy was adopted in the preparation of papers and in the teachings on fire insurance subjects or not.

³Exhibit 237 is the minute book of the Canadian Life Insurance Officers' Association, the membership in which is restricted to the

nesses are no more admitted in the discussion at the Institute than they are in the literature sent to the policyholders. Unless a student has laid a proper foundation before he comes under the influence of one of these schools he is almost sure to become a slave to the principles practised by the company in which he finds himself employed. There are no independent consulting insurance experts in Canada as there are in New York, England, and other places.

The benefit which Insurance Institutes bring to any country when conducted along proper lines can be best seen in England, where there is no Government supervision and very little government regulation of life insurance. London, England, is the home of the British Institute of Actuaries, the finest institution of its kind in English-speaking countries and one of the finest in the world. As an evidence of how the members of this Institute fearlessly attack the evils that creep into their business and of its powers to create a healthy public opinion, one need only refer to the papers that have been read before the Institute and published in the Institute's Journal, from which they are quoted by the press of the country. Just here it is interesting to contrast the manner

superior officers of Canadian life insurance companies. Among other matters of interest these minutes have been found to contain a paper that was read by Mr. J. F. Junkin, Managing Director of the Manufacturers Life Insurance Company, on the occasion of an outing which that association took to Niagara-on-the-Lake in 1900. Needless to say the paper was not discussed, but carefully stored away where there would be no danger of it being made public. The following is a quotation from this paper: "What would be the effect if every assurer realized that when he paid in \$100 in life premiums anywhere from \$25 to \$50 go out at once for the expenses of management and that the same thing will happen the next year, and the year after, and perhaps continue as long as he continues to pay annual premiums? . . . 'It is somewhat of a relief to turn from this record of extravagance to take a glance at the life insurance companies of Great Britain, where the expenses of most of them range from five to twenty per cent. of the premium income, about ten or thirteen per cent. being the most general.'" This goes to show that the managers were not unaware of their injustice to the policyholder. Since 1900 the expense ratio has increased in Canadian companies.

in which this Institute dealt with the evil from which Canadian policyholders have suffered so severely.

In 1889 Mr. H. R. Harding, a prominent English insurance expert and actuary, read a paper before the British Institute, in which he set forth in the most unmistakable manner the injustice that was done to the policyholder and the dangers to business by extravagant management and excessive commissions. Mr. Harding said in part as follows: "The Institute of Actuaries, as the representative and now authoritative body in all questions of life insurance cannot see, without concern, offices drifting on a course which, to say the least, affect the benefit derived from them by the policy-holders and must bring at the same time discredit and damage upon substantial offices and the practice of life insurance. . . . Personally, I think the evil has nearly reached a crisis, and that at any rate in London, where the people are most highly educated in these matters there are signs that the public mind is becoming considerably alive to the evil in the modern development of the practice."

Under the management of such men as Mr. Harding and the healthy public opinion which their teaching has created, a policy of economy and careful management has been maintained in English companies without any government supervision or inspection, and notwithstanding the fact that they were forced to meet the fierce competition which rampant extravagance and misrepresentation from this side of the Atlantic have given them. If Mr. Harding considered that the evil of extravagance had reached a crisis when the percentage of expenses to premium income ranged from five to fifteen per cent., as it did at the time he was speaking, what would he consider it has reached if this percentage ranged from twenty-five to seventy-five per cent., as has been the case for many years in Canada?

But, in Canada, government supervision has failed entirely to give the insurers the protection they thought they

were receiving, while the only public opinion that exists on the subject of life insurance has been created by the campaign literature of the companies or by their organs and officers and is therefore as false as their methods. Under these circumstances, and in face of the very great need there is for reform, it is alarming to see the public interest that has been aroused spending itself on the most trivial aspects of the subject and becoming exhausted and dulled by delay.

The only hope under such distressing circumstances is the press of the country. This hope lies not only in the larger dailies, but in the rural weeklies that reach the heart and backbone of the country. If discussion as to what is best to be done is not started now, but postponed until the proposed legislation is brought down, our members of Parliament will find themselves face to face with a great national problem, about which neither they nor the country have any definite opinion and little knowledge. In such a state of mind they will find it difficult to meet the arguments of the ready teachers and persuasive disciples of existing forms and practices, by whom they will find themselves surrounded and who will advise legislation as they did in 1899, that will make worse instead of better the lot of the policyholder.

One or two papers have already printed a few excellent articles and editorials on the subject. But the effort of the press to create a good healthy and intelligent public opinion on the subject is not as vigorous as it might be on so important an issue. Personally I believe that this is not so much due to a failing of the press as it is to the laxity of those who have the time and opportunity for a careful study of the subject as well as a reputation for sound judgment and the ability to give expression to their ideas.

It is on account of the delay in opening such a discussion by a more worthy author that the writer has the temerity to offer, at this time, the few ideas and references which this volume contains.

CHAPTER I.

GOVERNMENT REGULATION AND SUPERVISION OF THE INSURANCE BUSINESS IN CANADA IS WORSE THAN WORTHLESS.

Anyone who has been canvassed for life insurance—and this includes almost everyone—knows with what readiness and self satisfaction the agent assured him that with such a rigid government supervision as existed in Canada there was no possibility of any company misusing the funds of the policyholder. In many cases the agent believed this himself and the policyholder had no reason to doubt it, particularly after he was shown a copy of the annual report of the Government Superintendent, which, although it contained hardly an item that could be understood by any one but an expert—and even for an expert such items as would be of most use in determining the standing of companies were not to be found—yet the size of the volume was in itself sufficient to convince the average policyholder that the government would protect his life insurance investment.

But if the size of the volume was not sufficient to convince the prospective policyholder of the government's determination to protect his investment, the agent had only to refer to the Insurance Act of 1899 to clinch the point he desired to make. To the average man, even after careful perusal, the thoroughness and scope of this Act seemed to be all that was to be desired.

All this was of great assistance to the agent in getting business, and also brought much comfort to the managements. Once a policyholder was satisfied that the government supervision was sufficient, he gave little trouble to the managers and agents. This feature has been largely responsible

for the lack of attention given by policyholders to the affairs of companies in which they were insured. They were taught by the managements and agents to believe that government supervision was so thorough and painstaking that no irregularity could escape its notice, and that its powers were so wide that they could at once rectify any irregularity they discovered, both by compelling restitution and by visiting the offenders with punishment.

But what a complete farce this proved to be when the facts were known. Hardly a word of truth in any item of the story save that there was in the Statutes a so-called Insurance Act, that there was at Ottawa, under the supervision of the Finance Minister, an Insurance Department, maintained at a considerable cost to the country, and that this department published an annual report which did not appear until nine or ten months after the calendar year with which it dealt and which contained but few items that could be of value in determining the standing of companies, and even many of these were unreliable since they are now known to contain inaccurate and false returns.

Like the annual report, the Insurance Act of 1899 lacks nothing in size. It occupies thirty good sized pages and contains fifty-two sections as well as five or six schedules. To the uncritical it seems to cover the ground thoroughly, but when put to the test is found to be useless in the most important respects. It requires an annual statement from every company doing business in Canada, but the prescribed form in which the statement is to be submitted is of such a nature as to enable the companies to keep back or cover up such information as would be of most value in judging the standing of companies or in detecting an irregularity in the management. Furthermore, it provides no penalty in the event of an officer making false returns. According to the Act the department has no power to suspend or cancel the charter of a company so long as it makes its annual returns and

is solvent. A life insurance company may recklessly spend, as has been done in more than one instance, every dollar of its surplus as well as its entire capital except a few dollars, and the department has no power under the Act to prevent it. In general it offers no protection to the policyholder against excessive premium rates, extravagant management, discrimination in the apportionment of profits or surrender values or any other of the important features of life insurance from which the policyholder is likely to suffer at the hands of unscrupulous managements.

Even the features of the Act, which, to the ordinary reader, would appear to have been framed with the greatest desire to protect the policyholders, have proven to be worthless on account of careless wording and inaccurate punctuation, deficiencies of which the managements have taken advantage. For instance, in Section 50, which deals with the various classes of securities that may be held by insurance companies, nine men out of ten would take it that the limitation "which has earned and paid regular dividends upon its ordinary preferred or guaranteed stocks for the two years next preceding the purchase of such bonds or debentures" applied to all the classes of companies specified in the section. And the writer has it on the authority of a member of the Cabinet which framed the Act, that this was the intention of Parliament. But a very ingenious interpretation of the words which happen to be the class enumerated last, leaving it open to insurance companies to invest in the bonds and stocks of other companies whether they ever did or ever would pay dividends. In other words, opening the door and enabling insurance companies to become promoters of other companies and speculate in their stocks.

There are many other features in which the Act is lamentably inadequate if the government is to be at all effective in its attempt to protect Canadian policyholders. Some

of these will be pointed out when comparing the Canadian system with that of other countries, while others, no doubt, will suggest themselves to the mind of the reader by the provisions in the insurance laws of other countries, which will be given.

But the Canadian Insurance Act of 1899 attempts more than simply to require particulars to be furnished annually to the department and to prescribe certain regulations as to management. It also provides for visitation and supervision of the companies. For this purpose there is at Ottawa a Superintendent of Insurance, assisted by a staff of actuaries and clerks, whose duty it is to visit the head offices of the companies at least once a year, and to "*carefully*" examine the condition and affairs of each company. This provision in itself, one would think, should be sufficient, if properly fulfilled, to make up for many shortcomings in the rest of the Act. But, unfortunately, the position has been filled by a man who, according to his own evidence before the Insurance Commission, was disposed to allow the responsibilities of his office to rest lightly upon him. He was not without knowledge of the many irregularities that were going on in the companies which it was his duty to supervise. They were common talk in financial and political circles. They were being constantly reported to him in the most unmistakable manner in letters by his assistants. Even though the Act did not give him power to chastise the offenders in any other way, had he simply published some of these letters in his annual report they would have been sufficient to put a stop to the abuses. This is only one of the many remedies which a man of even average resourcefulness could have applied had he been disposed so to do. But unfortunately for the policyholder and for the good name of Canada, he was little better than those managers and directors who have been faithless to a position of trust and who, in the words of a prominent English critic, are now known to be "mere reckless specula-

tors with the money of others, and petty pilferers of the savings of the poor and needy." If the Superintendent of Insurance is not of the proper calibre, the best insurance laws that could be framed would be of little value. Mr. S. H. Wolfe, writing in the *North American Review* on "The Present Supervision of Life Insurance Companies," puts it in a nutshell when he says: "No matter how good or how bad laws are, their beneficial effect is directly proportionate to the efficiency of the supervising officer. Given a state whose statute books contain a set of ideal insurance laws but whose supervising officer is weak and inefficient and it will be found that the results attained, so far as the interests of the policyholders go, are inferior to those of some neighboring state whose insurance code is less elaborate but where the supervising officer is a man of sterling integrity, imbued with the knowledge of the importance of the duties assigned to him, and determined at all hazards to protect the interests of his policyholders."

Thus the provisions which at present exist and which have existed in Canada for the regulation and supervision of life insurance companies are worthless. In fact they are worse than worthless, inasmuch as they have not only failed to give protection to the policyholders, but have led them to believe that they were being protected.

The appointment of a Commission, however, by the present government to inquire into the whole business of life insurance would indicate that some changes in the existing Act will likely be made. It is therefore very advisable that policyholders should have as much information on this subject as can be procured, in order that they may be able to watch intelligently the shaping of this new legislation in their own interests. This is not only advisable in the case of so important an issue as that of life insurance, which affects, either directly or indirectly, almost every individual, but it is absolutely necessary under the existing conditions, if the

policyholders' interests are to receive proper consideration. Almost every insurance expert or student in Canada is in the employ of one insurance company or another. In addition to this the companies are thoroughly organized, the officers into what is called "The Canadian Life Insurance Officers' Association," and their agents into what is known as "The Canadian Life Underwriters' Association." These two organizations are composed of men whose influence every policyholder has already felt, and that not always in the policyholders' interests. The Canadian policyholders have also the example of how the organizations in American companies, exactly similar to the two above mentioned, did everything in their power to thwart the legislation proposed at Albany to remedy the grievances, similar to those in Canada, which were found to exist in New York companies, and how they actually succeeded in very considerably modifying these proposals.

CHAPTER II.

THE NECESSITY FOR STRICT GOVERNMENT REGULATION AND SUPERVISION OF LIFE INSURANCE.

The purpose of this pamphlet is not so much to advocate any particular method of Government regulation or supervision as to set forth the various systems that at present are in use in other countries, and to point out, in so far as it has been possible to ascertain, their merits and demerits. In going about it in this way the writer is not unmindful of the fact that foreign systems cannot be slavishly copied with success. But by studying them carefully and their workings we can gather much from the experience of other countries that will be useful in framing laws to suit our own particular conditions.

Before beginning this review, however, it may be well to mention some of the features of life insurance that make it a business in which every state has important interests to protect.

Here again I cannot do better than quote from the article by Mr. S. H. Wolfe, in the *North American Review*, "The state," says Mr. Wolfe, "has a vital interest in the successful administration of life insurance companies. They are encouragers of thrift; upon the death of the wage-earners the proceeds of the insurance policy are, in many cases, the only barrier between the family and pauperism. For that reason life insurance takes its place in the economic structure and occupies a peculiar niche." To this may be added a quotation from another advocate of government supervision. Mr. James M. Beck, formerly Assistant Attorney-General of the United States, writing in the same magazine, says, "There are peculiar reasons why insurance should be submitted to strict government supervision. Its success de-

pend upon multiplicity of contracts in order to establish a safe average, and even when conducted on the mutual plan as distinguished from a joint stock company, such multiplicity necessarily makes it impossible for the policyholders to exercise any but an indirect control over the affairs of the company. Moreover, many of the contracts are conditioned upon the death of one of the contracting parties, and it is eminently proper that the state should supervise the faithful execution of the contract by the surviving party. The business requires such special knowledge that few, if any, have the training necessary to conduct it wisely. An infinitesimal fractional variance in the calculation may mark the difference between a sound proposition and an illusory scheme. And as the public can have neither the knowledge nor the aptitude to solve for itself these intricate questions reasonable government supervision is not only desirable but imperative." In addition it must be borne in mind that an insurance company is not a productive corporation. It receives certain monies; it invests them; it distributes these funds to the beneficiaries of the policyholders who die during the existence of their contract, or to those who, by their survival of a stated period are entitled to such a participation. The corporation itself is, therefore, merely a collecting and distributing bureau. It produces nothing. It is the receiver, the custodian, the investor and disbursing officer of the funds which the policyholders pour into its coffers. The so-called profits are nothing more than the over-charges made in the premiums above the amount required to meet the mortuary and endowment elements of the policy and to provide for the expenses.

Besides these more or less theoretic and sociological reasons there are others which may be regarded as more practical, inasmuch as they refer to actual results attained under government supervision and appeal more directly to the pockets of the policyholders.

Life insurance reaches its ideal condition when it fur

nishes (1) absolutely perfect protection, and (2) at the lowest possible cost. State supervision has done much to realize the first condition of ideal insurance, although here in Canada, through the laxity of the government officials, one or two companies have been allowed to go dangerously close to the brink of insolvency. But as regards the feature of proper cost, governments in English-speaking countries have attempted little or nothing, and, as a result, instead of there having been any advancement towards this ideal we have actually been getting farther and farther away from it.

THE NECESSITY FOR GOVERNMENT REGULATION OF THE COST OF ORDINARY INSURANCE.

That the current premium rates of ordinary insurance are considerably about what they should be is very clearly brought out in an article in *The Independent*, entitled "Are Not Life Insurance Premiums Too High?" by Miles M. Dawson, the gentleman who was consulting actuary to the Armstrong Commission, and who at present is the consulting actuary to the Insurance Commission of Canada.

Mr. Dawson points out that "a leading mutual life insurance company offers life insurance to the public at the following rates of premium for the ages named:

Age.	Participating or with profit rates.	Non-participating or without profit rates.
20.....	\$18.40	\$15.01
25.....	20.14	16.46
30.....	22.85	18.74
35.....	26.35	21.70
40.....	30.94	25.62
45.....	37.08	30.90
50.....	45.45	38.14
55.....	56.93	48.10
60.....	72.83	61.94

"In this particular company," says Mr. Dawson, "the same surrender values are given under each of these forms, while," he continues, "under the foregoing scale of non-par-

ticipating premiums the company in question maintains the highest reserves known to life insurance in America." He therefore concludes that "The non-participating rates must be amply adequate. Yet they are fully twenty per cent. lower than the participating premiums (and it may be pointed out here that they are fully twenty-five per cent. lower than the participating rates in Canadian companies). "These non-participating rates," says Mr. Dawson, "are believed by the officers of the company to be enough to cover all necessary expenses, meet all mortgaged debts, make good and provide this high reserve after ten years and afford a good margin of profit. What more can a non-participating premium?"

He then points out that formerly nothing more was required, and consequently a few years ago the premiums both in American and English companies were much lower than they are now. But "experience," says Mr. Dawson, "showed that the policyholders appropriated the dividends more than low rates with small dividends. The companies consequently raised the rates.

In Great Britain the rates have increased likewise, but Mr. Dawson points out that the dividends to the policyholders in the form of dividends have generally increased proportionately. But in United States companies the same applies with even greater force to those companies where while there has been equally as great an increase in premiums, this increase has been used for increased expenses, and, as Mr. Dawson says, "In several instances companies have actually used all, under cover of dividends being deferred, and thus virtually denied the policyholders participation while charging them smartly for it."

According to this analysis the present premium rates of ordinary insurance could safely be reduced at least twenty-five per cent., if we had proper government supervision and regulation on this particular point.

THE NECESSITY FOR GOVERNMENT REGULATION OF THE COST OF INDUSTRIAL INSURANCE.

But it is not the carriers of ordinary insurance who suffer the most from exorbitant premium rates. It is the class who, by force of circumstances, are compelled to carry industrial insurance, or the ten-cent-a-week business. They suffer the most from unregulated insurance rates. This is the class that can least afford excessive charge and also the class in which the state has most at stake, in as much as the life insurance they carry is more often than in any other class the only "barrier between the family and pauperism on the death of the wage-earner."

The office boy or the professional man, who feels that he should carry a life insurance policy, on the ordinary participating plans, gets it at rates that are from twenty-five to forty per cent. too high. But the apprentice, the mechanic or the laborer who feels compelled to carry insurance in order to protect those depending upon him, generally pays, at the present rates of industrial insurance, over twice the cost of ordinary insurance. Thus one carrying industrial insurance at age twenty-two and paying sixty cents a week or \$31.20 a year, would have on the "Whole Life" plan a policy for \$984. For the same class of ordinary non-participating insurance at the same age the rate would be, in any of our Canadian companies, about \$15.30 per \$1,000. The industrial policies, according to their terms, are non-participating, but industrial companies might consider an injustice had been done them, if it were not pointed out that, while their policies are non-participating yet some companies are in the habit of declaring small dividends from time to time. For instance, the Metropolitan Life Insurance Company, has been declaring a dividend every five years equal to ten weekly payments. This would tend to reduce the annual premiums about one twenty-sixth. But this advantage is more than offset by a clause in the policy which states that should the

policyholder die within the first six months from the date of the policy only one-fourth of the risk will be paid, and if in the second six months only one-half. The full amount of the risk will not be paid until the policy has been in force for one year. Moreover, there is no surrender value until the policy has been in force five years, during which time more than two-thirds of all the risks taken have lapsed. To sum up, and in the words of the Armstrong Commission, "The industrial department furnishes insurance at twice the normal cost to those least able to pay for it; a large proportion, if not the greater number of the insured, permitting their policies to lapse, receive no money return for their payments."

The company doing the bulk of industrial insurance in Canada is the Metropolitan Life Insurance Company of New York. According to the evidence given before the Armstrong Commission this company, from the date of its organization to the end of 1904, had received from its policyholders \$418,729,463. During the same time it paid to its policyholders \$149,330,965, and for salaries, commissions and other expenses no less a sum than \$178,843,319, or over forty-two and one-half per cent. of the entire premium income. This is truly an alarming waste of the savings of the poor. But the following is a much worse example. The company coming next to the Metropolitan, in the amount of industrial business written in Canada, is the Union Life, a purely Canadian company. Since its organization in 1902 up to the first of this year it had collected from the very poor people of this country \$371,902.47 in premiums. During the same time it has paid to policyholders the paltry sum of \$57,426.08, and paid out for expenses, salaries and commissions the enormous sum of \$632,132.83, or over one hundred and seventy-one per cent. of the premium income. This enormous expenditure was made possible by the company eating into its capital, the greater

part of which capital was subscribed by people of very limited means. Could there exist a more deplorable example of the robbing of the industrial classes?

Under ordinary conditions it does not do to condemn a system unless something better can be recommended. But the system of industrial insurance that is practised in Canada is so expensive, when compared with the benefits, that its complete annihilation would be a decided improvement to the country. The business is practised among that class of people who more than any other "can have neither the knowledge nor the aptitude to solve for themselves" the contracts that are offered them. This permits of much misrepresentation on the part of the agent in his efforts to get business, which misrepresentation, together with the excessive premium rates, is almost entirely responsible for the very heavy lapses in this business.

But, fortunately, it is not necessary to advocate the annihilation of the principles of industrial insurance. In countries where it is properly regulated it is a blessing instead of a curse to the wage-earner. Mr. Frank A. Vanderlip, writing in the *North American Review*, says: "A satisfactory feature of the German state insurance system is that the benefits paid out correspond very closely with the premium paid in. The expense of administration, considering the enormous number of individuals concerned and the fact that weekly contributions are collected from employees, is surprisingly small. It averages under nine per cent." This is borne out by the government returns. In 1901 the total income from government industrial insurance in Germany was \$109,426,176, while the total cost of administration was only \$7,569,394, or seven per cent. of the income. The German system of insurance, however, will be fully dealt with later on.

THE NECESSITY FOR GOVERNMENT REGULATION OF THE
RATES OF FRATERNAL AND ASSESSMENT INSURANCE.

Fraternal insurance may, in no narrow or far-fetched sense, be regarded as industrial insurance. The premiums on the business that is generally known as industrial insurance, are collected in small weekly payments, while the premiums on fraternal insurance are collected in small monthly payments. Moreover, both are carried largely by the industrial classes. But while the policies, such as are issued by the Metropolitan and Union Life companies are largely confined to people living in cities and large towns, fraternal insurance is carried equally as heavily by the rural as by the urban population. In fact, it may be regarded as the farmers' insurance, since the greater part of the risks carried by this class is in fraternal societies. But there are points of difference between these two systems that should be very carefully considered in a proper study of the fundamental principles of industrial insurance. Fraternal insurance is, in the main, controlled, managed and regulated by the policyholders. It is, in fact, far more than any other system, insurance by the people for the people, while the policyholders in such companies as the Metropolitan and Union have no voice in the affairs of the companies. The other points of difference may be regarded as resulting from the one great dissimilarity just mentioned. For instance, fraternal insurance is generally conducted with as great economy as the so-called industrial insurance is with extravagance. Furthermore, the needs and conditions of the members in fraternal societies are considered by the managements and sub-managements or courts with greater consideration and brotherly feeling than is meted out by the managers of the industrial companies, actuated purely by commercial motives.

But vastly superior as is fraternal insurance to that offered by the companies it is far from being perfect, and much improvement could be easily brought about under a

proper government regulation and supervision, since the difficulties lie almost entirely in the matter of adequate rates and the security of the funds.

The matter of rates is very ably and thoroughly dealt with by Mr. Miles M. Dawson, in an article in the twenty-sixth volume of "The Annals of the American Academy of Political and Social Science." In this article Mr. Dawson refers to fraternal societies as "a class of institution which have, on the whole, been exemplary in the matter of economy of management and also in the selection of risks, and which, in addition have very great vitality on account of the strong fraternal sentiment that binds their members together and causes them to cling to the institution in solving its difficulties." Continuing, Mr. Dawson says, "Their vitality and innate strength, and their ability to cope with and overcome errors of plan, which would destroy companies of another character, are illustrated by the fact that the Ancient Order of United Workmen, the oldest fraternal society and the institution which first introduced assessmentism into the United States, is still flourishing with a membership of more than 400,000, and more than \$700,000,000 of insurance in force upon their lives. This society has undergone two reorganizations and has survived the shocks of these readjustments and bids fair to outlive permanently the effects of the fundamental error in plan which attended its original organization."

Continuing, Mr. Dawson discusses the nature of the fundamental errors in the assessment plan. The first, he claims, was the adoption of equal rates without regard to age, or what is known as the flat assessment plan. Under this, members admitted at the age of twenty, thirty, forty, fifty or sixty were all assessed the same amount towards the payment of death losses as they occurred. "Although, according to one of the standard tables of mortality, at the age of twenty the risk of death calls for a payment of \$7.80 per

\$1,000 or about sixty-five cents a month. At the age of thirty the risk calls for \$8.43 per \$1,000, or seventy cents per month. At the age of forty it calls for \$9.79, or eighty-two cents per month. At the age of fifty it calls for \$13.78, or \$1.15 per month. And at the age of sixty it calls for \$26.69, or \$2.22 per month."

Such a system was a heavy tax upon the younger members and could only be maintained by extreme economy and a constant influx of young and carefully selected members. Its effects soon began to be felt by the refusal of young persons to join and by the younger members dropping out.

These circumstances suggested the system of graded rates for the various ages. And gradually the best fraternities began to adopt this plan. But in formulating this plan the same mistake as in the other was made, only in a slightly different form. "Precisely," says Mr. Dawson, "as on the other plan, only enough was intended to be called to pay current losses, but now the assessments were made, for instance, sixty cents per month at the age of twenty; seventy cents at the age of thirty; eighty-two cents at the age of forty; \$1.12 at the age of fifty; \$2.22 at the age of sixty; or other varying rates, supposed to represent the mortality at the various ages. Once fixed these rates were not intended to be changed; that is to say, a member who entered at twenty would pay the same rate until he was forty, fifty, sixty, seventy, eighty, ninety or whatever age you please.

Supposing now that this rate was properly determined at the age of entry, it would be manifest that when a man was twenty years older he would be subject to the average mortality rate of an age twenty years higher, and not to the rate of his original age. Thus it will be seen that this plan, while being an improvement on the first, in the long run works results very similar to it. In the words of Mr. Dawson "It becomes correspondingly advantageous to the members as they become older and necessarily disadvantageous to the

younger of them." And he goes on to say, "The length of time that it can continue depends upon the growth of membership, economy of management, excellence of fresh medical selection and other things but in the end it must always spell ruin unless relinquished."

But fortunately for the most of our best fraternities the necessity for a reorganization was fairly and courageously met by the members, and the changes were made according as it became necessary to do so. Some were made before they had reached the dangerous point. A few of the weaker ones, however, that hesitated to correct their mistake went to the wall, and "their fate served as a warning to others." As Mr. Dawson remarks, "This movement has gone forward until at the present time several of the most important fraternities have made changes in their plans looking towards financial strength and permanence. The last ten years, and especially the last five years have been years of readjustment of rates in the fraternal societies of the country."

In conclusion Mr. Dawson says, "I cannot close without paying a tribute of earnest admiration to the leaders of fraternal societies, and particularly to the members of these societies. They have everywhere risen nobly to the duties before them, and even when they have declined in any considerable body to acquiesce in the proposed changes it will be found upon examination that there are peculiar circumstances which excuse them and explain their action. The willingness to have sound plans introduced has been remarkable; objections have almost frequently been to special features which bore more heavily upon members in one section than on members in another."

This will strike anyone who has looked into the history and principles of fraternal insurance as a very honest and impartial treatment of the subject. And it must be equally obvious how much more easily fraternal insurance could be

rid of these unsatisfactory features, mentioned above, under a proper system of government regulation than could any other kind of insurance in existence in this country and thereby come closer to the ideal condition of offering absolutely perfect protection at the lowest possible cost.

But there is one other feature of fraternal insurance that cannot be overlooked if we are to keep in mind that a thorough consideration of the fundamental principles of life insurance cannot be had if we neglect to take into account the proper relation that should exist between the policyholder and the state and the best means of bringing this about. In Germany there is a system of insurance that has done much more than simply supply cheap and sound insurance. In the words of Mr. Frank A. Vanderlip, vice-president of the National City Bank of New York, who has given considerable thought and study to the subject, "The results of the German workman's insurance embrace considerations of the deepest sociological consequences, on the one hand, and of the most significant effect on the national health and physique, on the other." The reasons for this, Mr. Vanderlip points out, are to be found in the machinery by which the German system is worked. The administration of the whole system is entrusted to local boards resembling, in many respects, the local courts of our fraternal societies. At the meetings of these boards, says Mr. Vanderlip, "Employers and workmen come together on common ground. They are working towards common ends. With the responsibility of administration on their shoulders, radical Socialists become conservative. With the broader view which close association with employees brings, the employers are benefited. The fact that, in the twenty-five thousand administrative organizations, workmen and employers have been brought together to give harmonious consideration to the means of accomplishing a common end is proving of immense importance in maintaining pleasant relations between capital and labor."

The same idea is expressed in another way by Prof. Charles R. Henderson, of Chicago University. "It is a mistake," says Prof. Henderson, "to call German insurance 'government insurance,' because the entire system rests on private administration, with just enough government control to guarantee scientific administration. In no country is government interference so slight or so wholesome." What a happy and significant clause that is—insurance administered by the people for the people, "*with just enough government control to guarantee scientific administration.*"

Now, no one would be reckless enough to think that a system which has been operated successfully in Germany could be imported into this country without a change with absolute surety that it would be equally as successful here. But will any one deny that our own machinery would not prove equally as satisfactory if remodelled along the lines of the fundamental principles that guided the Germans in building up their system? And can anyone fail to recognize the similarity that exists between the machinery of our fraternal societies and that of the German system of government insurance?

In face of these considerations there will be a grave mistake made and irreparable damage done, if our public men allow private considerations or political motives to persuade them to take a course that will tend to discredit or crush our fraternal societies.

CHAPTER III.

GOVERNMENT REGULATION AND SUPERVISION OF LIFE INSURANCE IN GREAT BRITAIN.

The laws regulating the business of life insurance in Great Britain are mainly embodied in the Life Insurance Company's Act of 1870, the provisions of which are substantially as follows:

Clauses one and two rehearse the title of the Act and give the interpretations of the terms used.

Clause three requires a deposit of twenty thousand pounds sterling to be made in the Court of Chancery by every new company proposing to transact business. But this may be returned as soon as the life insurance fund of the company, accumulated out of premiums, amounts to forty thousand pounds sterling.

Clause four requires (in the case of companies transacting other kinds of business as well as that of life insurance) the receipts from assurance and annuity contracts to be kept separate from other receipts in order to form a separate security for the policyholders and annuitants.

Clause five requires that every company shall, at the expiration of each financial year of such company, prepare a statement of its revenue account for such year and of its balance sheet at the close of such year according to forms or schedules prescribed by the Act.

Clause six requires similar statements to those asked for in clause five from companies doing other than life business.

Clause seven requires that every company shall, once in five years if established after the passing of this Act and once every ten years if established before the passing of this Act, cause an investigation to be made into its financial condition by an actuary, and shall cause an abstract of the report of such actuary to be made in forms or schedules prescribed by this Act.

Clause eight requires that every company shall, on or before the 31st day of December, 1872, prepare a statement of its life assurance and annuity business according to forms or schedules prescribed by the Act.

Clause nine provides that the Board of Trade, upon the application or with the consent of a company, may alter the forms or schedules authorized by this Act, for the purpose of adapting them to the circumstances of such companies, or the better carrying into effect the object of this Act.

Clause ten requires that every statement or abstract hereinbefore required to be made shall be signed by the chairman and two directors

of the company and by the principal officer managing the life insurance business, and, if the company has a managing director, by such managing director, and shall be printed; and the original, so signed as aforesaid together with three printed copies thereof shall be deposited at the Board of Trade within nine months of the dates respectively hereinbefore prescribed as the dates at which the same are to be prepared.

Clause eleven provides that on application a copy of the above mentioned statements is to be sent to every shareholder or policyholder of the company.

Clause twelve provides for the shareholders and policyholders getting lists of the shareholders when desired.

Clause thirteen provides for the shareholders and policyholders getting copies of deeds of settlement when desired.

Clause fourteen. Where it is intended to amalgamate two or more companies, or to transfer the life assurance business of one company to another, the directors of any one or more of such companies may apply to the Court, by petition, to sanction the proposed arrangement, notice of such application being published in the "Gazette," and the Court after hearing the directors and other persons whom it considers entitled to be heard upon the petition, may confirm the same if it is satisfied that no sufficient objection to the arrangement has been established.

Before any such application is made to the Court a statement of the nature of the amalgamation or transfer, as the case may be, together with an abstract containing the material facts embodied in the agreement or deed under which such amalgamation or transfer is proposed to be effected, and copies of the actuarial or other reports upon which such agreement or deed is founded, shall be forwarded to each policyholder of both companies in case of amalgamation or to each policyholder of the transferred company in case of transfer, by the same being transmitted in manner provided by section one hundred and thirty-six of the Companies (Consolidation) Act, 1845, for the transmission to shareholders of notices not requiring to be served personally; and the agreement or deed under which such amalgamation or transfer is effected shall be open for the inspection of the policyholders and shareholders at the office or offices of the company or companies for a period of fifteen days after the issuing of the abstract herein provided.

The Court shall not sanction any amalgamation or transfer in any case in which it appears to the Court that policyholders representing one-tenth or more of the total amount assured in any company which it is proposed to amalgamate, or in any company the business of which it is proposed to transfer, dissent from such amalgamation or transfer.

No company shall amalgamate with another, or transfer its business to another, unless such amalgamation or transfer is confirmed by the Court in accordance with this section.

Provided always, that this section shall not apply in any case in which the business of any company which is sought to be amalgamated or transferred does not comprise the business of life assurance.

Clause fifteen. When an amalgamation takes place between any companies, or when the business of one company is transferred to an-

other company, the combined company or the purchasing company, as the case may be, shall, within ten days from the date of the completion of the amalgamation or transfer, deposit with the Board of Trade certified copies of statements of the assets and liabilities of the company concerned in such amalgamation or transfer, together with a statement of the nature and terms of the amalgamation or transfer, and a certified copy of the agreement or deed under which such amalgamation or transfer is effected, and certified copies of the actuarial or other reports upon which such agreement or deed is founded; and the statement and agreement or deed of amalgamation or transfer shall be accompanied by a declaration under the hand of the chairman of each company and the principal managing officer of each company, that to the best of their belief every payment made or to be made to any person whatsoever on account of the said amalgamation or transfer is therein fully set forth, and that no other payments beyond those set forth have been made or are to be made either in money, policies, bonds, valuable securities or other property by or with the knowledge of any parties to the said amalgamation or transfer.

Clause sixteen. The Board of Trade may direct any printed or other documents required by this Act to be kept on file, where they may be seen by any one wishing to examine them.

Clause seventeen provides that all such statements or documents as above mentioned are to be received in evidence.

Clause eighteen. Every company which makes default in complying with the requirements of this Act shall be liable to a penalty not exceeding fifty pounds for every day during which the default continues; and if default continue for a period of three months after notice of default by the Board of Trade, which notice shall be published in one or more newspapers as the Board of Trade may direct, and after such publication the Court may order the winding-up of the company, in accordance with the Companies Act, 1862, upon the application of one or more policyholders or shareholders.

Clause nineteen. If any statement, abstract, or other document required by this Act is false in any particular to the knowledge of any person who signs the same, such person shall be liable on conviction thereof on indictment to a fine and imprisonment, or on summary conviction thereof to a penalty not exceeding fifty pounds.

Clause twenty. Every penalty imposed by this Act shall be recovered and applied in the same manner as penalties imposed by the Companies Act, 1862, are recoverable and applicable.

Clause twenty-one. The Court may order the winding up of any company, in accordance with the Companies Act, 1862, on the application of one or more policyholders or shareholders, upon its being proved to the satisfaction of the Court that the company is insolvent. The clause goes on to describe how it is to be determined whether or not the company is insolvent.

Clause twenty-two. The Court, in the case of a company which has been proved to be insolvent, may, if it thinks fit, reduce the amount of the contracts of the company upon such terms and subject to such conditions as the Court thinks just, in place of making a winding-up order.

Clause twenty-three. Any notice which is by this Act required

to be sent to any policyholder may be addressed and sent to the person to whom notices respecting such policy are usually sent, and any notice so addressed and sent shall be deemed and taken to be the notice to the holder of such policy.

Clause twenty-four. The Board of Trade shall lay annually before Parliament the statements and abstracts of reports deposited with them under this Act during the preceding year.

Clause twenty-five. This Act shall not affect the Commissioners for the reduction of the national debt, nor the Postmaster-General, acting under the authorities vested in them by various Acts, which are mentioned.

In some unimportant particulars this Act of 1870 has been amended by two subsequent Acts, 1871 and 1872.

In the words of the "Encyclopedia Britannica": "It will be seen that the principles upon which the Act proceeds insofar as it regulates the management of existing offices, is to require full particulars to be furnished as to their financial conditions, and to leave all concerned to form their own judgment upon these. The Government attempts no supervision of the companies further than to see that they comply with the requirements of the Act." On the whole this Act has served the people of Great Britain very well, but as pointed out in the introduction this result must not be credited so much to the requirements of the Act as to the general education of the people on insurance matters and the fine sense of professional honor on the part of British insurance experts and actuaries which is responsible for the first and finest principles taught to the people and practiced in the best offices.

In some respects the Act is excellent, in fact, a model for the framers of legislation. The one very noticeable feature of it is the thorough manner in which it deals with anything it undertakes. There is no part that is loose or careless. The spirit pervading the whole Act is that it is made to be obeyed. To thoroughly appreciate this feature one has only to read sections fourteen, fifteen and sixteen and sections eighteen, nineteen and twenty, and then to recall to mind the gross irregularities and injustices that have been

perpetrated on Canadian policyholders by Canadian companies with impunity, on account of the absence of such clauses from the Canadian Insurance Act.

But the British Insurance Act in some respects is weak and too antiquated to meet the needs of present-day insurance methods. And British policyholders have suffered much of late from the want of proper regulation of the business done in the United Kingdom, particularly by foreign insurance companies.

Mr. C. D. Higham, when president of the British Institute of Actuaries, in the course of his annual address in 1900, referred to how the business had outgrown the Act in many respects. Speaking of certain information regarding endowment insurance which the companies are not required, under provisions of the Act, to give, but "without which an unofficial valuation is impossible," he says, "something of this nature would certainly have been prescribed had endowment assurance been so much in vogue at the time of the passing of the Act as now." In another part of his address he says: "Some companies already supply information which could not be enforced, and yet without which no external actuary could come to any conclusion as to solvency." "We certainly want an amendment to the Life Assurance Companies Act," says Mr. Higham.

Referring to the necessity for more stringent laws to regulate the business of foreign companies Mr. William Sutton, another ex-president of the British Institute of Actuaries, has said: "Any number of excellent authorities could be brought in evidence as to the imperfections of existing requirements for British legislative insurance protection; the conclusion I have come to is that, quoting with suitable alteration a well-known phrase, 'something is wanting in the State of Denmark.'"

GOVERNMENT INSURANCE IN GREAT BRITAIN.

In all of the most advanced countries of Europe the governments provide some system of insurance for all or a part of its laboring classes or oblige employers to insure their workmen.

In Great Britain there is a very good system of cheap insurance that is carried on under the postoffice department, which, with a few improvements that would better adapt it to the needs of the present day, and with proper protection from the misrepresentations of the agents of rival systems could be made of much value to the British wage-earner.

The British system of government insurance is a very old system, having been established in 1864, and although slightly amended in 1888 and 1895 is not yet very well suited to the habits of the working classes of to-day. The following is a statement of the system that was prepared by the Edinburgh postoffice authorities for the "Special American Consular Reports on Insurance in Foreign Countries":

"The British Government insures the life of any person between fourteen and sixty five years of age for not less than \$4.87 nor more than \$486.65, upon application at the postoffice. If the amount of the annuity or insurance purchased is less than \$486.65, further annuities and insurance may be obtained from time to time until the total amount is \$486.65. Immediate or deferred annuities of not less than \$4.87 nor more than \$486.65 may be purchased through the postoffice on the life of any person over five years of age.

"Persons proposing to insure their lives or purchase annuities must furnish a statement, giving full particulars of their age, upon a form which will be supplied by the postmaster with the form of proposal. If such statement can be verified by the registrar general, London, no further evidence of age will be required; but if not, proposers must provide, at their own cost, such certificate of birth or baptism, or other evidence of age, as shall be required of them. When the age has once been proved, further contracts are granted without requiring any further evidence of age. Premiums are payable through the medium of savings bank deposit accounts, and are accepted in addition to ordinary deposits. An annuity or insurance contract is issued on payment of the purchase money, if a single payment, or of the first annual premium in full. Provision can be made for the payment of premiums by increasing the money in the bank by deposits of not less than twenty-five cents at any postoffice savings bank, and by the use of penny postage stamp slips the provision can be made in sums

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of two cents at a time. So long as there is a sufficient sum standing to the credit of the deposit account each premium is deducted therefrom, and if it becomes due, without the depositor being troubled in the matter, and notice is sent as evidence that the premium has been paid. If the balance in the account is insufficient to cover any premium due, the depositor will be informed accordingly, in order that he may make a deposit, which may be done at any postoffice savings bank. If desired, the premiums can be transferred from the account of any person other than the annuitant or insured with the consent, in writing, of the depositor.

"The following examples show various ways in which insurance may be effected: The life of a male or female between twenty-four and twenty-five years of age may be insured for \$18.67 by an annual payment throughout life of \$1.05, by an annual payment to the age of sixty of \$1.18, or by a single payment of \$21.66.

"A sum of money may be insured on the attainment of the age of fifty-five, sixty or sixty-five years, or sooner in the event of death, by the payment of a single or annual premium, and a sum of money may be insured at the expiration of ten, fifteen, twenty, twenty-five, thirty, thirty-five or forty years, or sooner in the event of death by the payment of a single premium according to the age of the insured person.

"Insurance for sums not exceeding \$121.66 will be granted without a medical examination upon production of satisfactory evidence as to health, but in such cases, if the insured should die, the second premium becomes payable, the amount of the first premium no more, will be paid to his representatives, and if he should die after the payment of the second premium and before the third premium becomes payable, half the amount insured, and no more, will be paid to his representatives. In either of these cases, however, if it shall be proved to the satisfaction of the postmaster-general that the death of the insured person was caused by accident, the full amount insured will be paid. In any case, immediately after the payment of the third premium, the insured person is entitled to the full benefit of insurance. Persons proposing to insure for more than \$121.66 must undergo a medical examination by a practitioner appointed by the postmaster-general, the cost of which is paid by the department; and persons proposing to insure for sums not exceeding \$121.66 may undergo a medical examination, if they so desire, by payment of a fee of sixty-one cents to the medical examiner. In all cases of insurance granted after medical examination the insured person is entitled to the full benefit of insurance immediately the policy is granted. No insurance above \$24.33 will be granted to persons under fifteen years of age.

"If, after having paid not less than two annual premiums, an insured should be unable to continue or should desire to discontinue the payments, such sum of money as the national debt commissioners shall determine to be the surrender value will be returned. Permission is granted to persons over thirty years of age who have been insured five years to reside in any part of the world free of any extra premium.

"The sums charged for the purchase of immediate annuities or

deferred annuities, sometimes called "old-age pay," vary with the age and sex of the person on whose life the annuity is to depend; and in the case of deferred annuities with the number of years to pass before the commencement of the annuity and with the conditions of the contract as to the return or non-return of the purchase money, a male aged sixty-five can purchase an immediate annuity of \$4.87, payable half-yearly, for \$47.04; a female aged seventy can purchase an immediate annuity of \$4.87 payable half-yearly, for \$42.38.

"When the condition of a deferred annuity contract is that in the event of the death of the person on whose life the annuity is to depend before the commencement of the annuity the purchase money is to be returned to his representatives, and that if the purchaser, at any time before the commencement of the annuity, wishes to discontinue the purchase the purchase money shall be returned. A female aged twenty-four may purchase a deferred annuity of \$4.87, to commence on her reaching the age of sixty and to be payable half-yearly, either by an annual payment until she reaches the age of sixty of \$1.05 or by a single payment of \$25.53.

"When the condition of a deferred annuity contract is that no part of the purchase money shall in any event be returned, a male aged twenty-four may purchase a deferred annuity of \$4.87, to commence on his reaching the age of fifty-four and to be payable half-yearly, either by an annual payment until he reaches the age of fifty-four of \$1.05 or by a single payment of \$19.42.

"Although in the case of annuities granted under the non-returnable scale no part of the purchase money paid can be returned, yet if the annuity is being purchased by annual installments and the purchaser is unable to keep up the payments to the end of the period for which the annuity is deferred, the money paid is not lost, as an exchange contract can be granted for such an amount of annuity, to commence at the time fixed in the original contract, as the payments made may justify."

FRATERNAL INSURANCE IN GREAT BRITAIN.

The following description of the working and regulation of fraternal societies is also taken from the Special Consular Reports above referred to, having been prepared by Consul Fleming, of Edinburgh:

"Friendly societies are defined by law in Great Britain as societies formed for the purpose of providing by voluntary subscription of the members, with or without the aid of donations, for:

(1) The relief or maintenance of the members, their husbands, wives, children, fathers, mothers, brothers or sisters, nephews or nieces, or wards being orphans, during sickness or other infirmity, whether bodily or mental, in old age (which means any age after fifty), or in widowhood, or for the relief or maintenance of the orphan children of members during minority; or (2) insuring money to be paid on the death of a member's child or on the death of a member, or for the funeral expenses of the husband, wife or child of a member or of the widow of a deceased member; or (3) the relief or maintenance of the

members when on travel in search of employment, or when in distressed circumstances, or in case of shipwreck or loss or damage of or to boats or nets; or (4) the endowment of members or nominees of members at any age; or (5) the assurance against loss by fire, to any amount not exceeding £15 (\$73), of the tools or implements of the trade or calling of the members.

"The majority of societies insure only sick, and pay a sum at death. To prevent persons of ample means from taking advantage of the privileges extended to these societies it is provided that no gross sum shall be insured exceeding £200 (\$973.30) and no annuity exceeding £50 (\$243.33), and that the exemption from income tax shall not apply to a society that assures annuities exceeding £30 (\$146).

"The term 'industrial insurance' is commonly used to designate the insurance feature of all friendly societies, as well as insurance by companies that grant a less sum than £20 (\$97.33) on any one life; but properly it refers only to the latter. The registered friendly societies operate under the new Friendly Societies Act, 1896, and are also subject to the provisions of the Collecting Societies and Industrial Insurance Companies Act, 1896, which applies to all so-called collecting (burial) societies, whether registered or unregistered, and to all industrial insurance companies receiving contributions or premiums gathered by collectors on a similar plan, at a greater distance than ten miles from the head office. This Act provides that every member or person insured is to have a copy of the rules and a printed and signed policy, at a cost not exceeding one penny (two cents) for each; that before the society can take advantage of any forfeiture for non-payment of contributions it must give fourteen days' notice to the member and allow him the opportunity of paying the amount; that a member is not to be handed over from one society to another without his written consent; that notice is to be given to the members of general meetings and of any proposed amendment of rules; that the balance sheets are to be open for inspection during seven days before the annual meeting is held, and are to be certified by a professional accountant, as well as by the auditors; that disputes may be settled by the county court or the magistrate of the place where the member or claimant lives; that collectors are not to hold office on the Committee of Management, or vote, or take part in the proceedings of meetings, and that all these provisions of the Act are to be set forth in the rules of the societies.

INSURANCE OF CHILDREN.

"To guard against the danger of grave consequences arising from the insurance of children, the statute contains the following provisions as to the payments on the death of children under ten years of age:

"(1) The money is not to be paid to anybody but the parent or the personal representative of the parent who survived; (2) the sum to be assured or paid on the death of a child under five years of age is not to exceed £6 (\$29.20); (3) on the death of a child between five and ten, £10 (\$48.67) may be issued; (4) where the child is insured in more than one office, the total insurance must not exceed these limits; (5) no payment is to be made except upon production of a special certificate from the registrar of deaths; (6) the registrar is to state in

the certificate the name of the society to which it is to be produced and the amount of the claim said to be due from it; (7) where he grants more than one certificate he shall number them consecutively, and the total amount of the claim for which he issues them is not to exceed the limits; (8) he must not issue a certificate unless the cause of death is medically certified or other satisfactory evidence of the cause is furnished; (9) the society must inquire what sums have been paid by other societies when the certificate does not purport to be the first.

GOVERNMENT SUPERVISION.

"There is a provision for the inspection of a society's affairs. Upon application of one-fifth of the members of a registered society, or of 100 members only if the society consists of 1,000 and not exceeding 10,000, or 500 members of a society exceeding 10,000, the registrar of friendly societies may, with the consent of the treasury, appoint inspectors to examine into the affairs of the society and to report thereon, or may call a special meeting of the society. Evidence of the good faith of the application must be furnished, and the registrar may, if he thinks fit, require the applicants to give security for costs, and shall direct by whom the expenses of the inspection or meeting are to be defrayed. Societies registered under the Friendly Societies Act are exempt from stamp duty and income tax, and also practically from the law of 1774, which requires that the person to whom a policy is issued shall have an insurable interest in the life insured. As to this law the exemption is indirect, arising from the provision of the Friendly Societies Act that members above sixteen years of age may dispose of sums not exceeding £100 (\$186.65) payable at their death by a written nomination.

"The latest complete returns of registered societies were published in 1901 and were for a year ended December 31, 1900. There were at that time 27,785 friendly societies in the United Kingdom, having 11,750,130 members, and £87,619 (\$192,166,497.86) funds. Percentage of total receipts: for benefits, 74.69; for management, 9.15; saved, 16.16."

CHAPTER IV.

GOVERNMENT REGULATION AND SUPERVISION OF LIFE INSURANCE IN GERMANY.

At the first International Congress of Actuaries, which met at Brussels in 1896, Mr. H. R. Harding read a paper on "Government Legislation in Reference to the Working of Life Assurance," which was supplemented by a paper on "German Law," by Dr. Karl Samwer. At the second International Congress, which met at London in 1898, Dr. Karl Samwer read another paper on "German Insurance Legislation." These three papers are very valuable contributions to the subject of government regulation and supervision of life insurance, but the writer has not been able to consult any of them, for the reason that the reports of these international gatherings of insurance experts are not to be had at any of the libraries in Toronto or Ottawa, or any place else in Canada, so far as he has been able to learn.

In the Journal of the Institute of Actuaries of January, 1902, Dr. Samwer has another paper, which deals with the German Imperial law relative to private insurance companies as fully as is necessary to give the reader a general knowledge of it. The writer, therefore, feels that he cannot do better than give this paper in full. The paper deals more particularly with the law as regards foreign companies, but since the foreign companies are subject to the same law as German companies the reader may regard the references in the paper as applying to all private companies doing business in Germany.

"Every company," says Dr. Samwer, "seeking to effect insurance in the German Empire, not merely by correspondence, but through representatives or agents, must obtain a concession. If, on January 1, 1902, it is already entitled to carry on business in one or more of the German individual states by virtue of a special concession, or by virtue

of laws rendering special concessions unnecessary, it needs no fresh permission to continue business in the particular district specified by the special concession, or, in so far as the law of the individual state permitted the transaction of business without a concession, in the district within which it has operated hitherto. Nevertheless, it is permitted to apply for the Imperial concession, and it will, in this, do well if it desires to be free from the onerous conditions of special concessions, or if the license of the individual state has been granted with power of revocation, the Imperial concession, however, would not be subject to spontaneous revocation by reason of the conditions of international law.

"The company must apply for the Imperial concession if the special permission expires or is revoked by the Imperial Supervision Department for Private Insurance, or if the office widens its scope of operations as to its nature or extent, and in particular, if it desires to open up in another individual German state. Further, any company which proposes to begin insurance business in the German Empire, or any part of it, after December 31, 1901, must obtain the Imperial concession.

"The application for the Imperial concession must be made to the German Reichskanzler, and therewith must be sent the scheme of the business, "Geschäftsplan." This must set forth clearly the object and purpose of the undertaking, the territorial sphere of the intended business, and such particulars as will show the possibility of continued fulfilment of the future obligations of the undertaking; it must contain particulars of the constitution, the general conditions of insurance, the technical bases, the principles for the disposal of funds not belonging to the policy reserve, and a statement as to whether the insurance business is to be carried on solely direct or also by way of reinsurance. In particular, the tariffs and the principles for the calculation of premiums and policy reserves must be fully set forth, the rate of interest used in the calculations, and the addition to net premiums, stated, and it must also be mentioned whether the premium reserves are calculated by net premiums or with a partial capitalization of the loading; the mortality tables are to be given, formulas are to be set forth for the calculation of premiums and of reserves, for each class of insurance, and to be explained by a numerical illustration. If insurances are undertaken at increased premiums, it is also to be stated whether and on what basis a special reserve is formed for them. In the case of a mutual office, the scheme of business must also contain the conditions as regards admission to membership, obligation to make additional contributions and distribution of surplus.

"For the purpose of obtaining the Imperial concession the company has also to show the Reichskanzler that at the chief office of the undertaking it can acquire rights in its own name, undertake responsibilities, sue and be sued, and it must pledge itself to maintain a branch office within the German Empire, and to appoint an Imperial chief attorney, residing in the Empire, and responsible for the fulfilment of all the legal obligations of the company.

"The Reichskanzler hands the scheme of business to the Imperial Supervision Department for Private Insurance, so that the latter may give an opinion after hearing the insurance counsel, as to whether the

scheme of business contravenes provisions of the law, or the interests of the insured are not sufficiently protected, or the continued possibility of fulfilment of the obligations arising from the insurance is not satisfactorily provided for, or facts exist which justify the view that the business will not be conducted conformably to law and good practice.

"If the opinion of the Supervision Department causes no suspicion in this direction, and the other requirements above mentioned are fulfilled, the Reichskanzler is at liberty to grant the Imperial concession. He must give it if international arrangements are in favor of the foreign company otherwise he may refuse it, as then the decision is left to his unfettered judgment, so that the German Empire can deal with other countries on the principles of reciprocity. In all cases the concession may be made dependent upon a deposit being lodged.

"If the company is admitted by the Reichskanzler, the appointment of the Imperial chief attorney is published *ex officio*. The Imperial chief attorney causes the branch office to be registered in the Commercial Register, and gives notice of the commencement of business to the governments of those individual states in which his company desires to effect insurances. District chief attorneys are to be appointed at the request of the individual states, and their power of attorney is more restricted than that of the Imperial chief attorney. All the agents—as well as the Imperial and district and chief attorneys, if they at the same time carry on an agency—must notify the department competent according to the law of the individual state on taking up their agencies; and in so far as the conduct of their occupation goes beyond the extent of retail trade, they must further see that they are registered in the Commercial Register. The company may be sued with reference to claims arising from its German insurance business in the court in whose jurisdiction the German branch office is situated, or the district chief representative concerned resides.

"Those companies which, by virtue of special concessions, or by virtue of special legal conditions which have hitherto exempted them from concessions, are entitled to carry on business, must make the necessary statements for the explanation of their plan of business to the Imperial Supervision Department for Private Insurance by August 15, 1901. If they have neglected this, the Supervision Department may, to compel the notification, threaten them with a penalty not exceeding 1,000 marks, and in case of non-compliance carry the threat into execution. So long as they carry on business without the Imperial concession they need appoint no Imperial chief attorney, but must, upon the request of the individual states appoint district chief attorneys. The jurisdiction of the state in which the district chief attorney is domiciled applies also to themselves.

"All companies which do not confine themselves to transacting business by correspondence, must make insurance contracts with persons whose customary place of abode is in the German Empire, only through representatives residing in the German Empire. A printed copy of the general conditions of insurance, and, in the case of a mutual office, a copy of the constitution or articles of association, is to be handed to a proposer in the German Empire before the completion of the insurance contract, in exchange for a form of receipt to be specially prepared. A copy of the accounts and annual report is to

be given to every German policyholder at his request. A company may vary the general conditions of insurance to the prejudice of a German applicant for insurance only upon justifiable grounds, and only on condition that before the completion of the insurance the attention of the applicant is expressly (either verbally or in writing) directed to the variation, and he has declared in writing that he consents to the variation.

"Further, every company has to obtain the consent of the Supervision Department before it alters its plan of business or transfers its risks wholly or in individual portions to any other office, or if it desires to obtain real property in the German Empire. The consent is unnecessary only in the case of the purchase of the property on the security of which it has invested, in the case of proceedings for compulsory sale by auction. It must furnish to the Supervision Department its yearly statement of accounts and an annual report, and, when requested, statistical information also. If an office becomes insolvent or overindebted, this is to be notified to the Supervision Department. If a company goes into liquidation, it must accept no new insurances.

"The law secures the claims of German policyholders by ordering that, in case of the failure of a foreign company, those claims shall be first satisfied out of the policy reserves set aside for the insurances effected in the German Empire. In order to make this right effectual, the law requires from the companies admitted after December 31, 1901, that they shall calculate and show in their books separately, according to the several classes of insurance, the German policy reserves in accordance with the scheme of business for the close of every financial year; that they shall cause the correctness of the calculation to be certified at foot of the balance sheet by an expert, and that they shall carry an amount corresponding to the calculation to the German policy reserve fund, and represented by sound German securities. These securities are to be entered in a register, a certified copy of which is to be submitted annually to the Supervision Department.

"They form the German policy reserve fund, are to be dealt with separately from all the other property of the company, and are to be kept, in a manner to be notified to the Supervision Department, at the office of the German branch, or, with the consent of the Supervision Department, in some other place in the German Empire. The company must so secure the German policy reserve fund, according to more precise regulations of the Supervision Department, that it can only be disposed of with the consent of the latter. This can, for example, be effected as regards mortgages by registration in the register of land, and as regards obligations of the German Empire or a German individual state, by registration in the ledger of the Empire or of the individual state concerned; the basis of the Bill points primarily to an agreement between Supervision Department and company. Withdrawals from the German policy reserve fund may take place only in so far as the management of the funds in accordance with regulations makes them necessary, or the funds are released by the termination of the insurance obligations.

"For insurance offices already entitled before January 1, 1902, to do business, the same regulations respecting policy reserve hold good for insurances effected after December 31, 1901, in the German Empire.

The policy reserve for the older German insurances is to be separated until January 1, 1905, from the other funds, to be carried to the German policy reserve fund, and to be kept and managed therewith. Also until January 1, 1907, the reserve of the older German insurances is to be invested in the German securities approved in so far as the Supervision Department does not make exceptions.

"And besides, for mutual offices the law contains other regulations, among which is to be specially noted that the premiums of the policyholder, and the payments of the office on similar hypotheses, are to be measured only on similar principles, that against the right of the office to the premium the policyholder cannot set off a contra account, and that additional payments may not be called for, except for the purpose of meeting the insurance claims.

"In the interest of the German policyholders obligation are imposed upon the companies by the law. In order that they may be fulfilled the law threatens penalties for an offence against important regulations, and introduces a uniform Imperial supervision. Although as regards the admission of foreign companies, as distinct from German, the Reichskanzler has a power of decision, yet the supervision, like that over the larger German offices, is exercised by the Imperial Supervision Department for Private Insurance. However, there arises from the nature of things an actual difference, in so far that the supervision office can superintend the entire conduct of German offices, but of foreign offices, in the main, only the German management. Nevertheless, the foreign companies are also bound to furnish to the supervision office explanations and information as regards the business beyond the German Empire. As an alteration of the plan of business intended only for extra German territory may react on the German policyholders, it also must be submitted to the supervision office for approval.

"The Supervision Department has to take note that the contracts are carried out according to the plan of business, and that the laws are observed in the interests of the policyholders, and in particular that the financial position of the company is sound. For this purpose important measures of the company are subject to its approval, and an examination of the conduct of business and of the financial condition is permitted at any time. The department may inspect books, documents and papers in the business premises of the Imperial chief attorney, of the district chief attorneys and of the agents, and require information from these persons. The continued control over the conduct of the business is facilitated for the Supervision Department by its power to issue precise regulations as to the form and manner and time for producing the annual statements of accounts and the annual report.

"If the Supervision Department is in any doubt it will obtain explanations from the company, dealing with the latter in a friendly spirit, and giving suggestions and advice of every kind. If need be, it may make such arrangements for the removal of improprieties as may appear to it suitable, and threaten penalties up to 1,000 marks for their enforcement, proceeding to recover them in the case of non-compliance. It may require of the company that the latter shall, within a specified period, alter doubtful business principles, or remove other defects, temporarily discontinue payments, and in particular, divide no

profit, and neither buy up nor lend upon insurance policies. Following the English method the supervision office is even entitled to reduce the claims in respect of current German insurances by at most one-third, so that the bankruptcy of a company in difficulties may be avoided in the interests of the German policyholders.

"In extreme cases the supervision office may wholly or partly forbid the company to transact business in Germany, and take measures for the security and in favor of the German policyholders. If a foreign company has been admitted by a German individual state before January 1, 1902, with reservation of the right of revocation, the supervision office is entitled to exercise the right of revocation. Besides this, however, the German Federal Council (Bundesrat) is entitled, for the purpose of any necessary retaliation, to use its judgment, on the application of the Reichskanzler, in forbidding any foreign company to transact business if international arrangements do not prevent.

"In those cases in which an office voluntarily or compulsorily gives up business in the German Empire, the winding-up of the German insurances is to be subject to the supervision of the Supervision Department. To the latter the company must also apply in order to withdraw a deposit which it has lodged before January 1, 1902, with a German individual state, or later on, with the Empire. Those foreign companies which were doing business in German individual states before January 1, 1902, without state supervision, and which in the German Empire, from January 1, 1902, only collect the premiums for insurances already existing, but do not complete any new insurances, are not subject to the supervision of the Imperial Supervision Department.

"For the Imperial supervision German and foreign companies have to pay a tax, which is not to exceed one per mille of the premiums collected during the last financial year for insurances effected in the German Empire, after deducting any surplus or share of profit returned.

"If a comparison be made between the positions of home and foreign companies under the German Imperial law, it will be seen that they are similar in essential points if, as regards foreign companies, the freedom of action in the matter of admission and prohibition of conduct of business be excluded by international law. If this is not the case the foreign company is legally in a more unfavorable position, but actually only when its home state gives the German Empire grounds for retaliation.

"In Germany the conviction has gained ground more and more that publicity is not sufficient to protect the interests of policyholders unskilled in business, and that only government supervision can really attain this end. Solid undertakings need not fear this—those unsound must fear it. Hence the majority of German insurance offices are in accord—except in matters of detail, such for instance as the introduction of the unnecessary district chief attorneys—with the Imperial law of May 12, 1901."

There are eighty-four life insurance companies doing business in Germany at present, all of which are subject to the provisions of the above Act.

Besides the life insurance that is done by these private companies there is an excellent system of workingmen's insurance that is conducted by the government or rather is guaranteed by the government and conducted by the people. It is one of the finest workingmen's insurance systems in the world. It is not life insurance, however, in the general acceptation of the term. It is a system that embraces insurance against sickness, against accident, and insurance to provide old-age pensions. This is the system that is generally regarded as the compulsory insurance system of Germany. But it is compulsory only in a limited sense. The only classes that are compelled to subscribe to it are wage-earners and petty officials, whose salaries do not exceed 2,000 marks (\$476) per annum. All others are permitted to participate in it or not as they please. If the compulsory element is distasteful to the participant then there is an incentive to increase his earning power to a point beyond the minimum.

The following is a general explanation of the system given by United States Consul-General F. H. Mason, of Berlin, in the Special Consular Reports of Insurance in Foreign Countries.

"The minimum relief in case of sickness is free medical treatment and medicine for twenty-six weeks, and in case of incapacity for work, pecuniary assistance up to half of the average daily wages, or free treatment in hospital, besides one-half the above mentioned allowance for those dependent on the sick person. Women are entitled to relief for six weeks after their confinement, and, in case of death, burial money amounting to twenty times their average daily wages. The contributions are collected weekly and are not allowed to exceed four per cent. of the average wages, two-thirds of which is borne by the insured and one-third by the employer. The administration is in the hands of sick clubs, whose presiding officers are chosen from the insured and the employers in proportion to the contributions. The insurance against sickness, inclusive of the miners' clubs, comprises about 10,000,000 persons, in more than 20,000 clubs, with an annual expenditure of about 200,000,000 marks (\$47,600,000).

"Insurance against accidents insures the person injured against

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casual accidents incurred through his own or others' carelessness. The personal liability of the employer is borne by the entire trade, apportioned to the several establishments according to their risk. Accident insurance was extended to traffic and transport establishments, agriculture, forestry, the building industry and navigation, by the laws dated May 28, 1885, May 5, 1896, July 11 and 13, 1887, while the inclusion of trade, handicraft and small factories did not take place until the revision of this law, October 1, 1900, and the enactment of the law of June 30, 1900.

"The insurance is carried on under guaranty of the government on the reciprocal system of employers united into trade associations. The minimum indemnity against accident comprises (1) in the case of wounded persons (from the beginning of the fourteenth week after the accident, as a supplement to the sickness insurance) the expenses of medical treatment, and an allowance while incapable of working up to 66 $\frac{2}{3}$ per cent. of the annual earnings, or free nursing until no further medical treatment is required, and the same allowance to those dependent on the injured person as in case of death; (2) in case of death, funeral money amounting to the fifteenth part of the annual salary, but in no case less than fifty marks (\$11.90), and for the dependents sixty per cent. of the annual wages for widow and children and twenty per cent. for parents in need. Indemnifications are determined by the trades associations, whose decision can be appealed against within a month to a court of arbitration, in which employer and employee are equally represented, and final recourse may be had to the Imperial Insurance Department.

"Insurance against invalidity and old age was finally settled by insurance law of July 13, 1899. The state gives a guaranty, and the expenses of administration are shared equally by the employer and the employee. Those incapable of work receive pensions regardless of age, and those over seventy years old receive pensions without regard to their ability to work."

That the system is giving satisfaction to all parties concerned seems to be the general opinion of all those who have made any investigation or inquiry. Mr. Frank H. Vanderlip, writing in the December, 1905, number of the North American Review, says as follows: "With a view to ascertaining at first hand just what German manufacturers and men of affairs think about the system, I addressed a series of questions to a considerable number of most prominent manufac-

turers and other representative men in Germany; and from the replies that I have received, it is clear that, in the main, the views held are distinctly favorable to the institution, although in the details of its administration there is found ground for criticism. The idea seems to be general that the system works for patriotic loyalty to the Government on the part of the working people. The earlier idea of the state in the workingmen's mind was based largely on the policeman, the sheriff and the tax-gatherer. The state always took something. Now a person who watches a postoffice money order department on the first of the month sees the people drawing their insurance money. For the first time the workingman looks upon the state as a giver. More than a million marks a day are paid out to them in this way; and the result in the way of developing patriotic regard for the Government, is excellent."

CHAPTER V.

GOVERNMENT REGULATION OF LIFE INSURANCE IN OTHER
EUROPEAN COUNTRIES.

Government supervision and regulation of ordinary life insurance in other European countries is so similar in principle and even in many of the details to the German system with which the last chapter dealt that it would be of little benefit and add much heavy reading to give anything like a full account of them here. For many years the countries whose systems of governmental interference in insurance matters were regarded as types of the two extremes were Switzerland and Great Britain. The system in Switzerland was based upon the principle that mere publicity of the companies' affairs, no matter how fully and perfectly given, was not sufficient to protect the interests of the policyholders "unskilled in the business." In addition to publicity the Swiss felt that there must be strict governmental supervision. The English system, on the other hand, pre-supposed that takers of policies were capable and should be sufficiently interested to see that the insurance companies were properly managed.

According as other European countries found it necessary to consider the regulation of private life insurance companies, they framed laws along the lines of the Swiss system until now all the important and best governed countries of Europe have insurance laws subjecting the companies to strict regulation and supervision.

But there is a system of insurance in operation in France that is quite unique and cannot be left out of a proper treatment of the subject of insurance. It is the French system of industrial insurance.

As in Germany the industrial classes in France are compelled to carry insurance. But in Germany they are com-

pelled to carry it in the system provided by the government while in France they are free to choose the medium in which they will carry it. The whole system of industrial insurance is a most elaborate one, and to give it in detail would require more space than a treatment such as this would justify. In the volume of United States Consular Reports, to which I have already referred, there is an excellent account of the workings of this system as it is at the present time, and is quite full enough to give a general idea of the system. It is as follows:

"There are at present operating in France," says Consul J. C. Coverts, "20,000 mutual aid societies, partially or entirely under government supervision and control, with a membership of 4,000,000.

CHILDREN'S AND OLD-AGE PENSION FUND.

"These societies are established under a law of 1856, amended and made more operative by a law of 1898. Their object is to afford assistance to their child members during sickness and to furnish a pension fund for old age, to be drawn upon when fifty, fifty-five or sixty years old, according to the amount deposited or as the beneficiary may elect. The maximum pension is 360 francs (\$69.48).

"The children deposit ten centimes (two cents) per week, which is divided into two equal parts—one sou going to the mutuality fund for aid in sickness, the other to the pension fund. This money is deposited in a Government depository, where it is invested in Government bonds and draws 3½ per cent. interest. The especial feature of these societies is the aid given them by the government. For every child who contributes during an entire year the state adds one franc (19.3 cents) to the common fund. It also gives a sum equal to one-fourth of the entire amount deposited by the children.

"Every school child is given a 'livret,' or bank book, upon the cover of which is printed a brief tabulated statement of the pension rate that one franc will produce at the age of fifty-five if deposited in childhood. The table states that if one franc is deposited at three years of age the depositor may draw seventy-four centimes (about 14½ cents) annually when he is fifty-five years of age, and that this sum will be increased in proportion to the number of francs deposited until it reaches the limit of 360 francs (\$69.48) annually. The tables compute the interest on one franc deposited when from three to twelve years of age, running up to fifty-five years.

"The one sou deposited as a reserve capital, which swells the mutuality fund for sickness, does not draw as high a rate of interest as the pension fund. A franc deposited at three years of age will yield but twelve sous (twelve cents) pension at the age of fifty-five. But the depositor does not part with his reserve capital. He can never possess it again, but if he should die before the age to receive it his next of kin can take the entire accumulations derived from the one sou deposited weekly for the reserve fund, and the depositor in the meantime would receive the benefit of it during sickness. This capital is also swelled by national and sometimes communal appropriations as well as by legacies and gifts from other sources.

"There is a trust company in Lyon and a number of other cities called the 'Caisse des Depots et Consignations,' under the immediate direction of the government, in which these mutual-aid funds are deposited and by whose officers they are invested in government bonds and other securities approved by the state. These moneys are also loaned to public institutions, such as hospitals, the government pawn shops, etc.

AIMS OF CHILDREN'S SOCIETIES.

"The aims of the children's societies, as set forth in a circular addressed to all the parents of pupils, briefly stated, are:

"To aid parents by paying them an indemnity, during the sickness of their children, of ten cents per day during the first and five cents per day during the second and third months of sickness.

"To create annual pension funds from the payment of monthly dues, government appropriations, and donations, which can be enjoyed by all persons after a membership of fifteen years.

"To imbue all children at an early age with the elements of economy; to accustom them to the use of a bank book and to the consciousness of having money at work earning something for them and held in reserve for their old age.

"To create and maintain a fund called 'trésor de l'avenir' (a treasure for the future), the product of which will be exclusively used to provide means of industrial education; to assist the depositors later in life to become members of mutual aid societies, and to aid them in establishing themselves in business.

"This society is rapidly spreading throughout France, especially among the working classes, who look upon it as furnishing more substantial relief than the savings banks.

WORKINGMEN'S AID SOCIETIES IN FRANCE.

"These societies are organized under national laws and are partly sustained by public funds. They are under the immediate supervision

of the 'Superior Council of Mutual Aid Societies.' This council is a part of the Interior Department of the National Government, and is composed of thirty-six members, among whom are senators, members of the lower house of Parliament, officers of the financial, agricultural, labor, and commerce ministries, and of the academy of medicine. It is believed in France that these associations will be effective in diverting the workingmen from communism and attaching them more closely to the Republic, with which their interests are inseparably involved.

"Mr. Bleton, who presided over a meeting of the associated societies held in Lyon recently, said in his address that these societies 'originated in a natural disposition among men to help each other, and were perpetuated by a profound sentiment of fraternity sustained by the National Government.' Employers encouraged the movement, became honorary members and contributed to the treasury.

FREE AND APPROVED SOCIETIES.

"There are two kinds of mutual aid societies in France—free and approved. The first has a legal existence, is empowered to receive gifts and legacies, and is under but one legal restriction, to wit, it cannot hold real estate. It does not receive direct assistance from the state.

"The approved society is under government control. The government appoints its president, but his name is generally proposed by the society. After a first meeting is held, a copy of the by-laws and constitution is deposited with the prefect for approval and remains there as a part of the archives. Any class of citizens—workingmen, clerks, small or large shop keepers, girls or boys—can organize a society and have it approved. It must be proved that its members are able to pay the monthly dues, to give aid in sickness, and to deposit in the government bank. The money deposited is invested in government bonds—national, departmental or communal—which never draw more than three per cent. interest. Sometimes the premium is so high that the interest is less than this figure; but the government always appropriates enough to bring the interest up to $4\frac{1}{2}$ per cent., which is left to accumulate for the old-age pension fund. Cities, communes and departments now and then appropriate a few hundred francs for a local society; employers give aid at times; legacies are bequeathed to the societies, and at the end of every thirty years the unclaimed deposits in the savings banks are turned into the general fund.

"The members of these societies may be men, women and children, from three years of age up to fifty. A marked increase is noticed of late among the depositors ranging from three to nineteen years of age. During the year 1898 that class represented 46.75 per cent. of

the total depositors. There were over 1,200 depositors among the school children of Roubaix and Tourcoing, and they all decided to enter upon the enjoyment of their pension when they reached the age of fifty-five. Nearly half of them were not over ten years old. They calculated that, whatever might befall them, they could take care of themselves up to fifty-five years of age and keep up their deposits as a provision for the rest of their lives. Over half the depositors elect to begin living upon their pensions when fifty five years old.

"During 1898 what are called 'collective accounts' represented the largest amount of deposits. These are accounts opened by large business concerns, railroad companies, banks, etc. The Credit Lyonnais, a bank which has branches all over France, made 8,185 deposits for its employees. The Northern Railroad Company deposited a large sum, the product of contributions from all its employees, to which the company added an almost equal amount.

VALUE OF OLD-AGE PENSIONS.

"In a small circular which is distributed broadcast among the workmen of France is a printed statement of the amount of annual pension which a man can enjoy at the age of fifty-five, sixty or sixty five years by a monthly deposit of sums ranging from one franc (19.3 cents) up; also how much money must be deposited yearly to yield an income at fifty or fifty-five of 360 or 1,000 francs (\$69 to \$193). If a father deposits 100 francs (\$19.30) for a child three years old it will form a pension at fifty, 'reserved capital,' of forty-one francs (\$7.91); 'alienated capital,' fifty-one francs (\$9.84). At sixty years it will be 92 and 115 francs (\$17.75 and \$21.92); at sixty-five, 153 and 100 francs (\$26.82 and \$36.67). 'Reserved capital' reverts to the heirs if the principal dies before the date for enjoying the pension. 'Alienated capital' goes to the general fund at the death of the principal. An economy of two sous (two cents) per day, or thirty-six francs (\$6.95) per year, for sixteen years yields an income at fifty, reserved capital, of 139 francs (\$26.83); alienated capital, 208 francs (\$40.14); at fifty-five, 210 and 219 francs (\$40.53 and \$42.37); at sixty, 331 and 509 francs (\$63.88 and \$98.28).

"According to a bulletin published by the Government, the deposits made in 1898 numbered 2,284,224, amounting to 44,543,697 francs (\$8,596,930); 91,604 new accounts were opened; 15,323,576 francs (\$2,957,450) were paid to the heirs of depositors in the reserve fund. The grand total of receipts from May 11, 1851, to December 31, 1898, is 1,612,841,576 francs (\$311,278,424). Deposits can be made in every village where there is a postoffice. No sum less than one franc (19.3 cents) is received; but as postage stamps are accepted many people

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begin by a one-cent stamp, making the deposit when the savings amount to twenty cents. Not over 500 francs \$96.50 can be deposited by one person in one year. The pension up to 360 francs (\$69.48) can not be seized for debt. If the pension is the result of a gift it cannot be seized for debt, however much it may exceed the 360 francs (\$69.48) limit. If a wife and her husband deposit in one account and one of them dies the entire pension passes to the survivor.

"Of the monthly dues paid into the mutual aid societies a small sum is withheld for the assistance of the sick. Those who are out of work receive a daily allowance from their society of from one to two francs (19.3 to 38.6 cents)."

CHAPTER VI.

STATE INSURANCE IN NEW ZEALAND.

It has been generally contended by those who are opposed to any system of government insurance that the success of such system in older countries is no reason to believe that it could be operated in a new and sparsely settled country, such as Canada, with anything like the same satisfactory results. But the force of this argument has been gradually weakening according as government life insurance in New Zealand has proved a greater and greater success. The system was established there in 1869, at a time when, if new and unsettled conditions are more unfavorable to this than any other system, it is a surprise that it ever survived. In 1869 the population of New Zealand, which is now 920,000, was under a quarter of a million. The land was mostly held in large estates and the scanty population was harassed by attacks from the natives. Prices were ruinously low, while the national debt, then nearly seven millions, was still rapidly increasing. About this time a number of bold reforms and unique experiments began to be introduced, and among them not the least important, and, in fact, one of the first, was government life insurance. Since then, not only has this particular act been amended several times to meet the changing needs, but the whole system of government insurance has broadened out, until now it embraces almost as many phases of the business as is to be found in any country in Europe. In fact, by the last edition of Government Fire Insurance, New Zealand may be considered to have gone one step farther than most European countries.

All this expansion has been due to the unbounded success of the first experiment of government life insurance, augmented by the satisfaction which each of the other

branches gave according as they were established. At the end of the thirty-fifth year of its age the Insurance Department of New Zealand had on its books more than \$50,000,000 or about as much, in proportion to the population of the two countries, as all Canadian companies have placed on the lives of Canadians.

But the success of the system, measured by the amount of business written, gives little idea of its greatest value to the country beyond that it indicates the favor with which it is regarded by the people. The establishment of government life insurance was the first important step in that policy of courageous experiment in the extension of democratic principles to enter new fields which has made New Zealand the world's political laboratory. Its success gave the people the encouragement and the means to continue to make changes in the best interests of the colony. The series of laws that have followed one after the other since the time when the success of government life insurance was firmly established are striking departures from the ordinary course of local legislation. These laws all aim at protecting and assisting the people. They curb commercial greed and make it impossible for either individual or corporation to build up big fortunes by squeezing and grinding the ignorant or those who cannot help themselves. On the other hand, they assist the people by lending them government money at low rates of interest to give them a start or to enable them to make needed improvements. They also provide for government accident insurance and for allowances or old-age pensions.

On the whole, these laws have been most successful in controlling and distributing the wealth of the country and in stimulating to activity and industry all classes. In proportion to its population New Zealand is the richest country in the world, for its national wealth is almost £300 sterling per capita, which, together with the fact that there are neither millionaires nor beggars, will fairly indicate how equally this

wealth is distributed. The industrial classes are contented and happy, and the colony is familiarly known as the "land without strikes."

One of the great benefits from governmental insurance is that it provides the state with the means for doing many things that it would otherwise find difficult.

"The millions of money," says Mr. H. D. Lloyd, in his "Newest England," "held by the Insurance Department of New Zealand are an important element in the financial resources of the country. The department puts its funds into national and municipal securities and loans largely on real estate.

In any postoffice may be seen such advertisements as the following:

"Cheap money in sums of one hundred pounds to ten thousand pounds.

The Government Insurance Department has large funds available for investment at exceptionally low rates of interest.

The Department loans on first mortgages of desirable freehold securities up to three-fifths of their value.

Valuations and legal expenses are fixed by the Department, and are kept as low as possible.

Intending borrowers should apply within for forms of application and for all further particulars."

The following is an account of the Act establishing and regulating the Government Insurance Department, which was read by Mr. J. H. Richardson, the Insurance Commissioner of New Zealand, before the International Congress of Actuaries held in London in 1898, and afterwards published in the Official Year Book of New Zealand for 1899:

"The management of the department is vested in an officer called 'The Government Insurance Commissioner,' who is appointed by the Governor on the recommendation of the Ministry of the day, and is a member of the ordinary Civil Service of the colony, holding office

in the same manner as other Civil Service servants. In order to prevent any deadlock the Governor may appoint a deputy to act in the case of the absence, illness or other temporary incapacity of the Commissioner. The Government Insurance Commissioner has power to enter into any contracts for annuities, and for insurance of lives, as well as any contracts whatever dependent on the contingencies of human life, under such regulations and in accordance with such tables as shall, from time to time, be approved by the Governor. The maximum of insurance on one life has been raised from time to time as the funds of the department have progressed. At present the department does not insure more than £4,000 on any one life. The Commissioner may increase premiums in proportion to the badness or ineligibility of a life, or he may decline the risk altogether. In all matters of litigation on account of the department the Commissioner may sue and be sued. The Acts regulating the affairs of the department provide, however, for arbitration in certain cases. If there are any disputes between the Commissioner and other parties, as regards annuities or death claims, the matter may be referred to the arbitration of two disinterested persons—one to be chosen and appointed by the Commissioner, and the other by the party with whom the dispute has arisen. In the event of there being any disagreement between the arbitrators, the matter in dispute has to be referred to an umpire to be appointed by the arbitrators before they enter upon the consideration of the matter referred to them. The award of the arbitrators or the umpire, as the case may be, is final and without appeal, except on a point of law. The arbitrators and umpire respectively have all the powers possessed by a court of law to summon witnesses and examine evidence, etc. Before matters are referred to arbitration, the Commissioner may, however, require a deposit of money as security for the costs of the arbitration.

“All moneys payable to the department are required by the Act to be paid into a separate account at the bank where for the time being the public account of the colony is kept, to the credit of an account called the Government Insurance Account, and if at any time the moneys standing to the credit of that account should prove insufficient to meet the charges thereon, the deficiency has to be made good out of the Consolidated Fund of the colony.

“Salaries and expenses of management are paid out of the Government Insurance Account from moneys from time to time appropriated by the New Zealand Parliament; but all payments under policy and annuity contracts for insurance, annuities and endowments, or for loans on policies, or for investments, are made out of the Government Insurance Account without such appropriation by Parliament.

"The department is subject to the ordinary state audit of the colony, and the Government Insurance Account at the bank is operated on by the Government Insurance Commissioner by cheque, countersigned by the Controller and Auditor-General of the colony.

"The Commissioner has to prepare, for presentation to Parliament, a revenue account and balance-sheet for the preceding annual period, and such statements of accounts are accompanied by a report by the Commissioner on the year's transactions. An actuarial investigation is made into the affairs of the department every three years, and all profits (subject to suitable reserves being made) are then divided amongst the participating policyholders.

"The investments of the department do not materially differ from those of an ordinary life insurance institution. They are in the main confined to New Zealand government securities, loans to local bodies (municipal corporations and the like), secured by special rate, loans to policyholders on the security of their policies, limited to 90 per cent. of the surrender value, and loans on mortgage of real estate, the last named not to exceed three-fifths of the valuation. Not more than £10,000 can be lent on one real estate security, nor more than that sum to any one person or company. No loan can be granted to a local body unless with the joint concurrence of the board hereinafter mentioned and the Governor.

"For the purpose of controlling and managing the mortgage investments on land of the department, a board is constituted, consisting of the Colonial Treasurer of the Colony, the Solicitor-General, the Surveyor-General, the Commissioner of Taxes, the Public Trustee and the Government Insurance Commissioner. The board must be unanimous before any loan on mortgage can be granted, and three members of the board form a quorum.

THE STAFF OF THE DEPARTMENT.

"As already explained, the statutory duties under the Acts regulating the affairs of the department, and the general management of the department, are vested in the Government Insurance Commissioner. The Commissioner is assisted at the head office by the Assistant Commissioner (who also holds the position of Deputy Commissioner, the duties of which are explained in my remarks regarding the constitution of the department), the actuary, the secretary and the supervisor of new business. For all practical purposes the staff may be regarded as the same as that of an ordinary life insurance institution.

"For purposes of control the colony is divided into four districts, each of which is supervised by an officer called a district manager. Subject to the control of the Commissioner the district man-

agents are responsible for the management of their respective districts. It is their duty to recommend suitable gentlemen as canvassing agents, and to make suitable arrangements which will insure their districts being thoroughly canvassed. The district managers are paid partly by results. They receive a fixed salary, and a commission on the net increase in the sum assured by the policies in their respective districts. Such net increase is arrived at by deducting the sum assured under the policies which have become void by death, lapse, surrender, etc., during the year, from the sum assured under the new policies issued during the same period. Where the department has not a district manager or resident officer, it is customary to employ the local postmaster. All such postmasters are paid a commission for any work they may perform for the department. Travelling agents are paid strictly by results. Their remuneration depends entirely on the amount of business they introduce. For all practical purposes they may be regarded as being on the same footing as the canvassing agents of an ordinary life insurance institution.

THE DEPARTMENT'S METHODS OF BUSINESS.

"The department is conducted precisely on the same principles as those adopted in ordinary life insurance offices in which the profits are divided solely amongst the assured. It is in all respects a mutual, self-supporting office. All expenses and taxes (to which the department is subject in common with other life insurance offices transacting business in the colony) are borne by the policyholders, and the business is conducted on ordinary commercial principles. All classes of policies ordinarily issued by life offices are granted, the colony being vigorously canvassed by duly accredited travelling agents. All profits are divided amongst the assured, who, in addition, have the guarantee of the state that their contracts will be duly met at death or maturity.

CONDITION OF POLICIES.

"The following are the more important conditions affecting policies:

"Thirty days of grace are allowed for the payment of all premiums. Policies which have not acquired a surrender value, when the premiums become overdue, may be revived at any period not exceeding twelve calendar months after the expiry of the thirty days of grace, subject of proof of health to the Commissioner's satisfaction and on payment of the arrears and a suitable fine. Ordinary policies acquire a surrender value after they have been in existence two years, and in the event of the premiums falling in arrears are kept alive out of the surrender value so long as such surrender value is sufficient—after the deduction of any loan that may have been advanced, or any charges

that may have accrued—to cover one quarter's premium. Any such policy may be revived within twelve months after the exhaustion of the surrender value, subject to payments of arrears and a fine, and to proof of health to the Commissioner's satisfaction.

"The department's condition as regards suicide differs considerably from that usually adopted. Until recently the department's policies became void if the person whose life is insured died by suicide, whether sane or insane, within twelve months from the date of the policy. The condition was thought to be somewhat illiberal, but the department was not prepared to waive the suicide clause altogether, and it was considered that the following condition would fairly meet the case:

"Policies shall become void if the person whose life is insured shall die by suicide, whether sane or insane, within six months from the date of the policy; provided nevertheless that it shall be lawful for the Commissioner in his absolute discretion to pay the sum assured if he is satisfied, after careful inquiry, that the person whose life is insured had not at the date of the policy any suicidal intention.

"I find that the new condition works well in practice. It is sufficient to act as a deterrent to prevent people effecting policies with a view to committing suicide, while on the other hand, it does not prevent the department paying claims where there was no suicidal intention at the time the policy was obtained. Care is, of course, taken to peruse the inquest papers, and evidence is obtained from the canvassing agent in order to ascertain the circumstances under which the proposal was obtained. Cases in which the policy was effected voluntarily, without solicitation, would, of course, be looked upon with grave suspicion.

SURRENDER VALUES.

"Whole-life insurance policies and endowment insurance policies may be surrendered after they have been in force for two years. Whole-life insurance policies or endowment insurance policies fully paid-up may be surrendered at any time after date of issue. Short term policies and other policies than those mentioned above are specially dealt with. The method or methods upon which surrender values are calculated are determined by the Commissioner.

"In lieu of the surrender values paid-up policies are granted, provided such surrender value, after deduction of charges thereon, is equivalent to a paid-up policy of at least £20. The method of calculating surrender values is that usually adopted in life insurance offices."

CHAPTER VII.

GOVERNMENT REGULATION AND SUPERVISION OF LIFE INSURANCE IN THE STATE OF NEW YORK.

Previous to the investigation by the Armstrong Insurance Commission and the legislation which followed its report, the insurance laws and supervision of the State of New York were similar to those of Canada, and consequently the management of the business there was no less irregular than it is found to have been in this country. It will therefore be very instructive to review this new legislation that came into force in that state only last April, in the light of the abuses which it purposes to remedy. The Act is a very lengthy one, the new amendments alone occupying one hundred pages, and, therefore, cannot very well be given in full here. But even if it were possible, it would hardly be advisable, since there are many clauses of so general a nature that they are quite common to all Insurance Acts. Furthermore, the amount of statutory phraseology necessary for the proper construction of any law makes heavy and tiresome reading. The writer will therefore undertake to give in as accurate and concise a form as possible the substance and purpose of all the most important clauses and amendments, together with some remarks.

Before taking up the laws in this way, however, it is very necessary that some of the most important differences in the business done by New York companies and those of our own country should be pointed out. Because it is only by keeping these in mind that we can hope to arrive at the soundest conclusions as to whether a feature of government regulation that is well adapted to the business in another country would be equally as advantageous in our own. The most important difference in this respect lies in the nature of

the business written, or more definitely the amount of foreign business done by domestic companies and the amount of domestic business done by foreign companies.

New York companies, at the end of 1904, had on their books a total insurance of \$7,099,590,662. Of this amount \$1,231,048,339 was placed on the lives of people living within the State of New York, and \$5,868,542,323 on the lives of people living elsewhere. The total amount of insurance carried by all companies on the lives of people in the State of New York was \$2,018,253,107, of which amount \$1,231,048,339 was written by New York companies, \$783,903,663 was written by other United States companies and the paltry sum of \$3,301,105 by companies whose head offices were situated outside of the United States.

On the other hand, Canadian companies, at the end of 1904, had on their books a total insurance of \$441,881,186, of which \$364,640,166 was placed on the lives of people in Canada and \$77,241,020 on the lives of people living elsewhere. The total amount of business carried by all companies on the lives of people living in Canada was \$587,880,790, of which amount \$364,640,166 was carried by Canadian companies and \$223,240,624 by foreign companies. Of this latter amount no less a sum than \$144,241,700 was carried by companies whose head offices were situated in the State of New York.

According to these figures, which have been taken from the companies' own returns as published in the New York and Canadian government reports, Canadian companies have written only \$77,241,020 insurance, representing about \$12,700,000 in money in countries outside of Canada, while foreign companies have written in Canada, insurance amounting to \$223,240,624, representing over \$55,000,000 in money. Or to put it in another way: while Canadian companies have been getting control of and in part bringing into Canada foreign wealth to the amount of about \$12,700,000, foreign

companies have obtained control and to a large extent have taken out of Canada, savings of the people to the extent of over \$55,000,000.

But this is not the most discouraging feature of this business for Canadian policyholders. In the evidence that has been given before the Insurance Commission of Canada, it will be remembered that when the officials of a prominent Canadian company were asked why \$343,000 had been taken out of the profits of the policyholders in 1905 to meet current expenses, or \$307,000 in 1904, or \$288,000 in 1903, or \$208,000 in 1902, the reason given was that the foreign business of the company has been very expensive. Again, when the officials of another Canadian life insurance company were asked why they had played so fast and loose with the profits of their policyholders the reply came that their foreign business had been very expensive. On pages 404 and 405 of the Armstrong Commission's report there is a very valuable table showing the price that had been paid by the various companies, operating in the State of New York, to get new business during the year 1904. This table shows that this last mentioned Canadian company was the most extravagant in this respect of any company doing business in the state, having spent for the purpose of getting new business no less than 467 per cent. of the loading provided in the first year's premiums, or nearly one hundred per cent. more than any other of the forty-five or forty-six companies in the table. This shows that the Canadian policyholders have been paying very dearly for the foreign business of Canadian companies.

Now if we turn and examine what is being done in other countries as regards government regulation of the business of foreign companies we will get some valuable ideas as to how Canada should deal with this phase of the business as well as some information that will be valuable in a careful study of the amendments to the New York Insurance Act.

On February 24, 1905, at the request of the Secretary

of the Department of Commerce and Labor at Washington. the Department of State transmitted a circular letter to the Consular officers of the United States in the various countries, instructing them to make the necessary investigation into the subject of life insurance as practiced in the different countries, to prepare reports thereupon and forward the same at their earliest convenience. These reports were published by the department in a special volume, from which the writer has already quoted extensively. Here are some remarks that this volume contains which will give the reader an idea of the attitude of the governments of other countries towards foreign companies.

Consul-General F. H. Mason, of Berlin, reports that the Imperial law which went into effect May 12, 1901, has made life insurance in Germany a precarious business for foreign companies, many of which are closing up their affairs and issuing no new policies whatever. While the law does not require that foreign companies have an unimpaired capital, the strict government supervision provided for would make this necessary. It is required, however, that foreign companies keep in the hands of the insurance bureau an amount of money equal to the full premium reserve on all German policies. . . . The net result of the system thereby established is that two of the leading American companies are no longer able to transact new business in Germany, and a large number of other foreign companies of high standing have found themselves no longer able to transact new business in this country.

Another section of this volume of Consular Reports devoted to insurance in France, reads as follows:

"A law completely changing the status of foreign insurance companies went into effect March 17, 1905. From the text of this law it is permitted to infer that these decrees will be trying upon the organizations and future operations of foreign companies. The new law will, as it now reads, render

practically impossible certain combinations practiced by American companies, such as policies of accumulation. According to Article 7 of the new law an individual account must mention yearly the part of the benefits attributable to every policyholder, and this account must be delivered to the interested person. This clause naturally presents a great obstacle to the American policy of accumulation, according to which the benefits are not known until the expiration of the insurance."

In England also, where there has been less interference on the part of the government with the operations and business of foreign companies than in possibly any other country in the world, there is of late much evidence of a strong feeling on the part of the people that this has been a mistake.

From these observations one would naturally conclude that the foreign business in these countries has not been of the most satisfactory nature either as regards the results to the policyholder or the general effect upon the nation.

Again, it must be kept in mind that in each of the above mentioned countries the New York life companies carried large amounts of insurance, and it is only reasonable to expect that in framing laws to govern these companies the Armstrong Commission and the New York legislators would not be apt to lose sight of this fact.

With these facts before us we are now in a position to consider the advantages and disadvantages to the policyholders of the new amendments to the New York Life Insurance Act and how such amendments would be suited to the conditions in Canada.

The first important amendment is the one forbidding officers and directors to accept any remuneration from or in any way personally benefit by purchases or sales in which their company is concerned. That such a clause should have a place in the Insurance Act of Canada is so obvious as not to admit of the slightest doubt even in the minds of the most

credulous. The instances that have come to light during the past few months where managers and directors of Canadian companies have personally benefited at the expense of the company they represented are many and not a few revolting. Somewhere it has been said that the ordinary thief is amenable to the law, but the thief who steals in the name of a corporation, while a far greater danger to the community, to his fellow citizens, and especially to the state, is much more difficult to reach. If some such clause as this will reach the insurance company thief then by all means it should have a place in the Insurance Act of Canada.

Clause sixty prohibits any company doing business in the State of New York to use estimated profits or misrepresent to the people the terms or nature of any of their policies. This is a big step in the right direction. On no matter is it so easy to mislead the public as it is on the matter of life insurance, and no feature of the business has contributed more to this end than estimated profits and misrepresentation. If the profits are distributed annually, as they should be, there is no need for estimates. In fact, in a properly managed company with proper rates, there are no profits. The so-called profits are simply the amount which the policyholder has been overcharged for his insurance.

Clause eighty-three enacts that all profits must be distributed annually. Concerning the necessity for such a provision the Armstrong Committee makes the following remark. "Of all the reforms suggested by the Committee nothing, it is believed, is more imperatively demanded than that companies should be compelled to exhibit the results of their management by annual accounting. If details of management are to be left, as they should be, to the discretion of the directors, they should be compelled each year to state the results of their administration **and** to come under definite liabilities to the policyholders for the amounts to which the latter are entitled." Canadian policyholders have suffered

too much from a system that permitted companies to delay apportioning profits until the maturity of the policy, and then to declare only such amounts as they felt they could spare or that they could force the policyholders to accept, to fail to appreciate the value of this clause. A policy of annual distribution of profits should be equally as satisfactory to all companies desiring to deal honestly and openly with their policyholders.

Clause eighty-eight deals with a phase of the business in a manner that demands the attention and careful study of all policyholders and none the less of those who are now carrying insurance than of those who are likely to join the ranks in the future. The substance of clause eighty-eight is as follows: If a policyholder who had taken out insurance previous to January 1, 1907, and had paid at least three full premiums on it, is so unfortunate as to find himself compelled to allow his policy to lapse, because he is unable to meet the premiums or for any other reason, the company need not allow him any more for it than two-thirds of the amount of the reserve. Furthermore, the policyholder is not allowed to draw even this sum in cash. He must take the equivalent of this surrender value in paid-up insurance by "either continuing the insurance of the policy in force at its full amount so long as such single premium will purchase temporary insurance for that amount, at the age of the insured at the time of lapse of forfeiture; or to purchase upon the same life at the same age paid-up insurance payable at the same time and under the same conditions, except as to the payment of premiums, as the original policy" for such an amount of paid-up insurance as the surrender value will purchase.

The injustice of this clause can best be explained by giving a specific example. Take the case of a man who at thirty-two years of age took out a whole-life policy for \$1,000 in 1881, paying a yearly premium of \$24.10. Of such a premium at the above age, according to the Actuaries' Table, four

per cent. interest, which is one of the standard bases for computing premiums, \$18.04 would be the net premium or the amount that would be sufficient to carry that man's insurance until death, while the balance, \$6.06, would be the loading or the amount provided in the premium for expenses.⁵ The reserve on this policy in 1911 would be about \$450. That is, after paying the entire cost of his insurance up to 1911 and paying the company \$181.80 for looking after his insurance and also donating to the company any savings there have been from the mortality element of his insurance, which in itself is considerable, as will be shown later on, he still has deposited with the company to his credit about \$450, which, in insurance parlance is known as the reserve on his policy. This man is now sixty-two years old, or at an age when his earning power is very poor, even though he enjoys normal health; not to speak of the many ills and misfortunes that may overtake a man at that age which may not only wipe out his earning power altogether, but may leave him a charge on the state. In this case, under the laws of New York, the company need not allow him, as the surrender value of his policy, more than \$300, while the balance of \$150 is retained by the company for the purpose of paying profits to the more fortunate policyholders who are able to keep up their policies. In other words this system pays profits to the rich out of the misfortunes of the poor.

But this is not the only hardship that the New York law imposes upon this old man. It must be remembered that, according to the New York law, in case of forfeiture the cash value cannot be drawn by the insured. He receives no cash whatever, but is forced to take the equivalent in paid-up life insurance computed at his then age. That is he is compelled to continue the full insurance of \$1,000 on his life for about seven or eight years longer without having to pay any

⁵The figures are taken from Miles M. Dawson's "The Business of Life Insurance."

further premiums, at the end of which time, of course, it would lapse and he would be without insurance or anything else. Or he might take out a paid-up policy payable at his death for about \$400.

This, it cannot be denied, is not a fair treatment of a man who must have been a creditable citizen since it required considerable industry and commendable perseverance to keep an insurance policy alive for thirty years. Furthermore, this is not an exceptional case, but one of a large class since the result, so far as the policy is concerned, is the same in this as in all other cases where the holders allow their policies to lapse. Neither is it an extreme case, for the amount so retained by the company is less from lapses on the whole-life plan than from those on the limited-payment-life and very much less than from those on the endowment plan. Nor can the results in the particular case above described, so far as the circumstances of the individual have contributed to them, be considered either exceptional or extreme. Policies that are old enough to command a surrender value are allowed to lapse either because the holder is utterly unable to meet the premiums or because he finds that he requires the money he has saved in this way for some other purpose. Often a man, who has put on life insurance at an early age, finds later on in life that it is necessary for him to draw its surrender value in order to give his family an education, who will deny that, in a free country, he should not have the privilege of carrying out this laudable desire. If his insurance is placed with New York companies and he allows his policy to lapse he cannot draw the surrender value in cash, but must take a paid-up policy equivalent to only two-thirds of the reserve. What would be thought of legislation that conferred on the banks the power to keep a part of their customers' deposits, or to deny them the right of withdrawing them at all. It is equally as unjust for an insurance company to have this privilege,

and especially so as long as companies are allowed to sell investment insurance to the people.

The other half of this clause deals with the lapses in the business written after January 1, 1907. In the case of all lapses on such business the Act permits New York companies to retain "one-fifth of the entire reserve, or the sum of twenty-five dollars for each one thousand dollars of the face of said policy if said sum shall be more than said one-fifth." This provision is not nearly so favorable as the one just described to policyholders who allow their insurance to lapse in the early years of the policy. But after passing a certain stage in the age of the policy it becomes slightly more favorable as the policy grows older. Or to explain what this means more clearly—Take the case of \$1,000 whole-life policy on the life of a man at the age of thirty-two. The reserve^a on such a policy at the end of the first year is \$10.10; at the end of the second year it is \$20.53; third year, \$31.30; fourth year, \$42.42; fifth year, \$53.90; sixth year, \$65.77; seventh year, \$78.03; eighth year, \$90.70; ninth year, \$103.80, and so on, increasing as the policy grows older. It will thus be seen that, at the end of the third year, the policyholder has to his credit in the company, as a reserve on his policy, \$31.30. But should he allow his policy to lapse at this stage the company need allow him only \$6.30, for since \$25 is more than one-fifth of the reserve the company is permitted, under the provisions of the Act, to keep back \$25 instead of the one-fifth of the reserve. Thus the policyholder is considerably worse off than if he had taken out his insurance before January 1, 1907. In that case he would have received two-thirds of the reserve or over \$20 instead of \$6.30. It will thus be seen that in this particular case, it will be near the end of the seventh year before the policyholder would be as

^aThese figures have been taken from Miles M. Dawson's "The Business of Life Insurance."

well off in the case of his policy lapsing as he would have been had he taken out his insurance before January 1, 1907.

After the seventh year, however, he will be in a slightly better position than if his policy dated from a time previous to January 1, 1907. But as regards the provision for paid-up insurance, he is no better off. He is not allowed to draw even the \$6.30 in cash. He must take its equivalent in paid-up insurance.

But the injustice of this clause reaches the limit when it provides that, in the case of an endowment policy lapsing on which the surrender value is more than is necessary to carry the risk to the end of the endowment period, the excess is not to be paid to the policyholder at the time the policy lapses, but is to be retained by the company and paid to the holder only in case he survives the endowment period.

Now let us see how this affects the position of the New York insurance companies. During the year 1904 the sum that was allowed policyholders on account of surrendered policies in these companies was \$21,395,607.84. Of this amount \$19,650,772.85 was paid to the policyholders in cash and \$2,744,834.99 was used by them to purchase insurance paid-up and otherwise and annuities. During 1905 \$26,230,399.68 was allowed policyholders for surrendered policies by New York companies. Of this amount \$23,083,440.65 was drawn by them in cash and \$3,146,959.03 was taken in paid-up life insurance and annuities.

Thus it will be seen that heretofore the New York companies have had an annual cash outlay of about \$20,000,000 on account of lapsed or surrendered policies. But after 1907 they will not be required to pay out a single dollar for lapsed policies written after January 1, 1907. Of those written previous to that date, not a single dollar on any policy which has not "written or printed in red ink on the margin of the face of the policy when issued" a notice waiving the provisions of this section. The writer has enquired at some

of the Toronto offices of New York companies and he cannot find that any of the officials know of a single policy bearing such a waiver. Or, in other words, after January 1, 1907, any control which the New York companies have on the savings of the citizens of other countries as well as those of their own and of sister states, they will keep until the death of the insured or the maturity of the endowment.

To show the reader what this feature means to the companies and what it costs the man who fails to meet his premiums we will take the case of one of the large New York companies—the one which, according to the evidence given before the Armstrong Commission, was in the habit of treating its surrendered policies with greater liberality than the most of its competitors. The actuary of this company swore that he generally allowed on surrendered policies about eighty-five per cent. of the reserve. But notwithstanding this liberality the company made handsome gains from this source. During the year 1904 the total reserve on lapsed policies in this particular company was \$5,936,771.56. Of this amount \$3,217,679.33 was paid to the policyholders in cash and \$531,045.23 was credited to them either to pay premiums or to purchase paid-up insurance, while the balance, which was no less a sum than \$2,188,047, was retained by the company. During the same year the total amount of dividends paid to the more fortunate policyholders of this company was \$2,674,207. That is, the profits made out of the misfortunes of the poor man in this company were almost sufficient to pay all the dividends which the rich man received. Now it should be noticed here that if this company allowed eighty-five per cent. of the reserve to policyholders who surrendered their policies after paying three or more premiums and the total sum thus paid them in 1904 was \$3,748,724.56, then of the \$2,188,047, kept by the company, at least \$1,526,507 was the reserve on policies which were allowed to lapse before the third premium had been paid. This in itself should be a strong reason why

policies surrendered after at least two premiums had been paid, should, if justice is to be done to policyholders, have a surrender value. But there are other reasons even more conclusive.

The laws of the State of Massachusetts are more liberal in the matter of surrender values. They compel the companies to pay within a very small fraction of the full reserve on lapsed policies and provide that it may be withdrawn by the policyholder in either cash or paid-up insurance. Moreover, they compel companies to give surrender values after the policy has been in force two years. The New York law does not permit surrender values on lapsed policies until after the policy has been in force three full years. This law of Massachusetts was enacted in 1880. In 1887 an amendment was passed allowing companies to keep out five per cent. extra in the case of endowment policies when the surrender value was taken in cash, but not if it was taken in paid-up insurance. But in 1896 this amendment was repealed and the law was allowed to stand as originally enacted. One would naturally conclude that it must be a success, and certainly it is much fairer to the policyholder than the law of New York.

Now, my readers must not allow themselves to be persuaded that the surrendered policy has been treated with any greater liberality in Canadian companies than in those of New York. Such is far from being the case. The writer has hesitated to draw his examples from the evidence that has been submitted before the Insurance Commission of Canada, when he could get them elsewhere, because that Commission has not yet made its report. But it may not be out of place to point out here that it has been shown in evidence submitted before this Commission that some of the most prominent of our Canadian companies have retained sufficient out of lapsed policies in one year, not only to pay all the profits paid to policyholders in that year, but also to pay all the

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dividends which the stockholders received over and above what was earned by the investment of the capital itself.

Clause eighty-nine of the Insurance Act of New York prohibits any company doing business in the state to "discriminate in favor of individuals of the same class either in the amount of premiums charged or in any return of premium, dividends or other advantages." It also forbids any company or agent thereof to "pay or allow, or offer, to pay or allow as an inducement to any person to insure any rebate or premium, or any special favor or advantage whatever not specified in the policy." This clause should be in the Canadian Insurance Act.

Clause ninety-two provides that no company doing business in the State of New York shall declare forfeited or lapsed within one year after failure to pay the premium any policy *hereafter* issued unless a written notice is sent to the insured. The provision in this clause is a very necessary one, and should have been made to apply to policies written *heretofore* as well as *hereafter*.

Clause ninety-four deals with the right of policyholders in domestic insurance companies to vote. It provides that every policyholder in any domestic mutual company whose policy has been in force for at least one year shall have one vote in person or by proxy or by mail. At least five months before each election every such company shall file two full and correct lists of the names and last known postoffice addresses of all policyholders. Two similar lists shall be kept at the home office and at the general agencies of each state and foreign country. These lists shall be subject to inspection and copy by policyholders. This clause also provides that where policyholders of any stock company have become or shall become entitled to vote for directors, they shall be entitled to vote in person, by proxy or by mail. And lists of policyholders entitled to vote shall be maintained as above stated in the case of mutual companies. At least five

months prior to the date of any election of directors the Board of Directors shall nominate candidates for every vacancy to be filled at such election, and also three persons to receive the proxies. A list of these nominations shall be filed with the Superintendent of Insurance. Any one hundred or more qualified voters may also file nominations of one or more candidates. At least two months previous to the election the company shall mail to each policyholder a list of those so nominated, together with a ballot and blank proxy. The voting shall take place at the home office, and the polls on election day shall remain open from ten o'clock in the forenoon until four in the afternoon. Letters containing ballots shall be received at any time before the day of election and on that day up until the polls are closed. Candidates receiving a majority of votes shall be declared elected. All ballots shall be preserved for at least four months after the election and then destroyed. This is a very necessary and fair clause and one that should have a place in the Insurance Act of Canada.

Clause ninety-five enacts that any domestic stock life insurance company may be reincorporated as a mutual company and may provide for the retirement of its capital stock "by the payment of an amount fairly determined to be the present value thereof with reference to its par value, the dividends allowed by law thereon and the eventual right, if any, of the stockholders in any accumulations of the corporation." This plan of retirement must be first adopted by a majority vote of the directors; then approved by stockholders representing a majority of the stock at a meeting called for the purpose; then approved by the Superintendent of Insurance; and then approved by a majority vote of the policyholders at a meeting called for that purpose. The superintendent shall not approve of the plan for the retirement of the stock if after such retirement the remaining assets are not sufficient to maintain the deposit with the super-

intendent and not less than the entire liabilities of the company. After the retirement of the stock the company will be conducted in the same manner as a mutual one.

Clause ninety-seven deals with the expenses of management, by all odds the most important feature of the business of life insurance, since upon it depends the result of almost every other feature.

Speaking of one of the foremost, and by no means the least expensive of the New York companies, the Armstrong Commission says as follows:

"In 1885, when the premium income of this company was \$14,768,902, and the total income \$20,214,953, the dividends to policyholders were \$3,187,452, the expenses being only \$3,134,452. In 1904, when the premium income was \$52,932,097 and the total income \$81,062,980, the dividends to policyholders were \$2,674,207, and the expenses \$16,898,456. It is not simply that the distribution of dividends has been deferred. The plan of deferring dividends for long periods has undoubtedly facilitated large accumulations, providing apparently abundant means for doubtful uses on the one hand, while concealing on the other the burden imposed upon the policyholders by the costly efforts to obtain new business."

After such a statement, which sets forth in the most unmistakable manner a condition that could only be brought about by reckless and extravagant management, it will be interesting (1) to examine the amendment by which it is proposed to curb this policy of reckless expenditures and afterwards (2) to apply the provisions of this amendment to the business of the company, to which the Armstrong Commission referred in the above terms, for the year 1904, in the same manner as it would have applied had the new Act been in force during that year.

First. The amendments which the New York Legislature made to the Act and which are now the laws of the state

make no provisions whatever for the limitations of insurance rates. The companies may increase their premiums by adding to the loading for expenses at their pleasure, according as their extravagance make it necessary for them to do so. Clause ninety-seven, which deals with this phase of the business, simply states as follows: No company doing business in the State of New York "shall make or incur any expense or permit any expense to be made or incurred upon its behalf or under any agreement with it, except actual investment expenses (not exceeding one-fourth of one per cent. of the mean invested assets) and also except taxes on real estate and other outlays exclusively in connection with real estate, in excess of the aggregate amount of the actual loadings upon premiums received in said year and the present values of the assumed mortality gains for the first five years of the insurance." This is the sum total of the limitations which the Act imposes on the aggregate expenses of any company doing business in the State of New York. They are simply to keep their expenses for certain purposes within the loading and the mortality gains for the first five years, but they may increase this loading at their pleasure by increasing the premiums which the policyholders must pay.

It is true that there are other provisions in clause ninety-seven, but they cannot, in any sense, be considered as limiting the extravagance of the head office management. They deal with the remuneration of the agent and his relations with the policyholders. As regards the agency cost of *new business* the clause forbids any company, doing business in the State of New York, to pay or allow: "(1) For commissions on first year's premiums; (2) for compensation not paid by commission for services in obtaining new insurance exclusive of salaries paid in good faith for agency supervision either at the home office or at branch offices; (3) for medical examination and inspection of proposed risks, and (4) advances to agents, an amount exceeding in the aggre-

gate the total loadings upon the premiums for the first year of insurance received in said calendar year and the present value of the assumed mortality gains for the first five years of insurance on the policies on which the first premium, or instalment thereof, has been received during the calendar year." As regards the agency cost of *old business* the Act forbids any company, doing business in the State of New York, to pay "commissions upon renewal premiums received upon policies issued after the year 1906, in excess of five per cent. of the premiums annually for nine years after the first year of insurance in the case of endowment policies providing for less than twenty annual premiums, nor in excess of $7\frac{1}{2}$ per cent. of the premium annually for nine years in the case of other forms of policies." In addition to this "a fee not exceeding two per cent. may be paid for the collection of premiums which shall be received for any years after the tenth year of insurance." The Act further forbids any company to advance money to agents without "adequate collateral security," or to make any advances on the "security of renewal commissions." It also prohibits the granting to agents of any bonuses, prizes or rewards of any sort "based upon the volume of any new or renewed business."

Finally, the clause prohibits the giving of any rebates or other inducements to take out insurance under the guise of making the applicant an agent or collector. Before examining the effects of this legislation it is well to point out here that the practice of giving rebates is much more severely dealt with than it is by the provision of this clause and in the ninety-first clause already referred to. The penal code of the state is also amended by adding a new section as follows: "577-k. Any person knowingly receiving any rebate or allowance or deduction from any premium, or any valuable thing, special favor or advantage whatever, as an inducement to take any policy of life insurance not specified in the policy is guilty of a misdemeanor." Rebating to the policyholders is thus about as impossible as it can be made.

Second. Now let us see how the provisions of this Act would have effected the management, the agency force and the policyholders of the company referred to by the Armstrong Commission in the terms quoted above, had this Act been in force during the year 1904.

According to the evidence given before the Armstrong Commission the total loadings on all premiums paid to this particular company, in the year 1904, were \$13,983,720. One-quarter of one per cent. of the invested assets would be at least \$1,000,000, since the total admitted assets were \$440,978,371.16. The expenses in connection with real estate in 1904 were as follows: Taxes on real estate, \$328,689.72; repairs and expenses (other than taxes) on real estate, \$606,583.32. The savings from the mortality provision made in the first year's premiums were \$829,951, and the savings from the mortality provisions made in the second, third, fourth and fifth years' premiums would be at least \$400,000 (although this amount is not to be found any place in the evidence submitted before the Armstrong Commission, yet from similar items of other companies that are given, it can safely be said it would be at least the above amount). The sum of all these items, or \$17,148,944.04, is the amount which this particular company would have been able to spend in 1904, under the provisions of the present Insurance Act of New York. The sum which it actually did spend in 1904 was \$16,898,456, which sum, it must not be forgotten, includes all the rebates that were allowed to the policyholders, but which could not be allowed under the provisions of the present law.

Let us see if we can estimate what these rebates would likely amount to. In doing this, each reader will have to form an estimate according to his own experience in and knowledge of the matter, because the public is in the peculiar position of seeing the managers howling out against rebates and the Managers' Associations interviewing governments and

urging that laws be passed to forbid them, and yet in their evidence before the Commissions they seem to know nothing about it beyond that rebates are given by the agents of most companies. Some managers even go so far as to deny that the agents of their particular companies rebate. At any rate, there is little information in either the evidence submitted before the Armstrong Commission or in the evidence so far given before the Canadian Commission that would give any idea of the extent to which this practice has been carried. Personally, the writer believes that it would average forty per cent. of the first premium and at least $1\frac{1}{2}$ per cent. of the renewals. The amount of first year's premiums received in 1904, by the company we are dealing with, was \$9,132,695.08, and the rebate allowed on this would be at least \$3,600,000. The receipts of this company from renewal premiums in 1904 were \$47,694,885.71, on which there would be a rebate of at least \$700,000. That is, while the total expenditure of this company is generally regarded as being \$16,898,456 in 1904, the actual expenses would not be more than \$12,598,456, the remaining \$4,300,000 having been allowed the policyholders in the form of rebates. Thus, while this company spent only \$12,598,456 in 1904 under the old regulations, under the provisions of the new Act it would have been permitted to spend at least \$17,148,955.04.

As regards the limit which this clause puts upon the expenditure for the purpose of getting new business, the provisions are so vague as to admit of a thousand and one different opinions as to whether any particular expenditure was made on account of new business or whether it should be regarded as one for general purposes. Moreover, it is an easy matter for any company to change its system of getting business by commission to one where the greater part of the work is done by salaried agents known as inspectors.

Thus the new Act offers no guarantee whatever that the insurance companies will be managed with any greater or

even as great economy as they have been in the past. In addition to this the premiums have not been reduced nor even a guarantee given to the policyholder that they will not be increased. But on the contrary they have been actually increased since, in the future, policyholders will be denied the benefit they formerly derived from rebates, their only redress against the excessive and exorbitant rates charged by the companies. The policyholders of the particular company we have been considering, will pay in the future some \$4,000,000 more per year for the same insurance than they have in the past without any particular guarantee that they will receive any larger profits than they have been receiving. This amendment is decidedly opposed to the interests of the policyholders.

Clause ninety-eight enacts that no domestic company shall pay to any official, in salary or in any other way, an amount exceeding five thousand dollars in one year without submitting such to the Board of Directors for their approval. Neither can a salary or other remuneration be fixed for a longer period than twelve months. It also forbids the granting of a pension to any officer or member of his family after his death. A clause similar to this should be placed in the Canadian Act.

Clause ninety-nine compels all domestic companies to procure proper itemized vouchers for all disbursements over one hundred dollars. This clause should also be placed in the Canadian Act.

Clause one hundred enacts that no domestic insurance company shall "after the first of June, 1906, invest in or loan upon any shares of stock of any corporation other than a municipal corporation, nor, excepting government, state or municipal securities, shall it invest in, or loan upon, any bonds or obligations which shall not be secured by adequate collateral security or where more than one-third of the total value of the collateral security therefor shall consist of shares

of stock." It also states that companies owning stocks or bonds other than those mentioned above, must dispose of them within the next five years from December 31, 1906. The clause also forbids any company from underwriting or participating in any underwriting scheme whatever. A clause similar to this should be placed in the Canadian Act.

Clause one hundred and one enacts that on and after the first of January, 1907, all policies of insurance, other than industrial policies, issued or delivered within the state must be in one of the following forms:

- (1) An ordinary life policy.
- (2) A limited payment life policy
- (3) An endowment policy.
- (4) A term policy.

The exact form of each of these standard policies is also given. This clause should also be in the Canadian Act.

Clause one hundred and two prohibits any domestic company that issues participating policies from also issuing non-participating policies.

Clause one hundred and three enacts that, in addition to any other information that may be required by the Superintendent of Insurance every company doing business in the state shall send in annually an accurate, concise and complete statement according to a form prescribed for the same, which form asks for a very full and detailed statement of the business of the previous year and the standing of the company at the end of the year. This is a very important requirement and should be exacted of all companies doing business in Canada.

To sum up, it may be pointed out that all policyholders naturally fall into three classes: (1) Those who allow their policies to lapse for non-payment of premiums. (2) Those whose policies mature by the death of the insured. (3) Those whose policies mature by the expiring of the term mentioned in the policy. Of all those who take out insurance, about

fifty per cent. belong to the first class, about eleven per cent. belong to the second class and about thirty-nine per cent. belong to the third class. As regards the price which all three classes must pay for their insurance, the new Insurance Act of New York makes no improvement, but on the contrary increases the burdens of the policyholders since it deprives them of the benefits of rebates, without reducing the excessive premiums they will have to pay.

In other respects the first class are in a decidedly worse condition by the limitations that have been put upon their right in the event of being compelled to surrender their policies.

The second class have received no consideration whatever, either by the Armstrong Commission or in the provisions of the new Act. There are thousands of cases where beneficiaries have been deprived of their rights for the want of a proper and easily accessible tribunal such as exists in New Zealand, where the poor can have their wrongs righted without being compelled to submit to such costly litigation as the companies on this continent are generally disposed to give them whether they succeed or not. The mere threat of a suit often intimidates a beneficiary into accepting much less than is her due.

The third class have no guarantee other than that which the publicity of the affairs of the companies will give them that their profits will be any greater under the new Act than under the old conditions, beyond that under the new Act the management will find it much more difficult to steal. But they may legally take just as freely.

On the whole, if the new Insurance Act of New York is to be measured by its efficiency in ensuring that the people will get sound insurance at the lowest possible cost, it utterly fails to give anything like satisfactory results.

CHAPTER VIII

CONCLUSION

The consensus of opinion among the foremost countries of the world, both new and old, is decidedly in favor of strict government regulation and supervision of the business of life insurance. Canada already has followed the example of the majority, but the system she adopted has proven to be weak and inefficient. It requires to be very much improved.

In addition to the clauses recommended when dealing with the laws of New York the following are some of the most important improvements that should be made in the insurance laws of Canada, if the policyholder is to receive anything like his rights.

There should be a new Insurance Act passed or the old one should be amended in terms so clear and precise as to admit of the least possible doubt as to its intentions.

This Act should provide such penalties, in case of either infringement or evasion of its provisions as would impress both the people and the companies, and when necessary teach them that the law must be obeyed.

It should provide for a strict governmental supervision of the whole business of insurance.

It should provide, in terms similar to those in sections fourteen, fifteen and sixteen of the British Insurance Act, regulations for the amalgamation of two or more companies or for the transfer of business from one company to another.

It should restrict the amount which any company may incur or expend in any one year for expenses, to a sum not, in any case, to exceed the loading on the premiums received during that year.

It should state the maximum premiums which any com-

pany may charge for each of the different kinds of policies issued. This could be easily done by restricting the loading to be added to the net premium in the case of each class of policy.

The Act should state the basis to be used in determining the net premium on each class of policy.

It should provide some system of arbitration, such as exists in New Zealand, for the settlement of differences between companies and their policyholders or beneficiaries. This would enable the latter to have justice done without being compelled to resort to expensive litigation. It would also be a big saving in the legal expenses of the companies.

It should provide that in the case of a policy lapsing on account of the non payment of a premium or for any other reason, after two full premiums had been paid, that the policy shall have a surrender value equal at least to the full reserve on the policy. It should also provide that the holder may draw this surrender value in cash or take it overvalued in paid up insurance or in an annuity. It should further provide that, in case the holder fails to make a choice, the reserve be automatically converted into a term policy which shall remain in force as long as the reserve shall be sufficient to keep it alive or until the regular premiums were paid by the holder. Such a provision would prevent such hardships as are often experienced by a beneficiary who finds, on the death of the insured that because a premium was a few days overdue, the policy had lapsed notwithstanding that there may have been an amount standing to the credit of the insured in the shape of a reserve many times greater than the premium.

It should compel every company doing business in Canada to make out at the end of each year a complete and detailed statement of all business transacted during the year as well as an account of its financial standing at the end of

the year. A copy of this statement should be sent to each policyholder in time to give him an opportunity of examining it before the annual meeting. A copy of this statement should also be sent immediately to the Insurance Department at Ottawa, and as soon after the first of the year as possible these statements from all companies should be published in the form of an annual report. Copies of this report should be sent at least to the office of every newspaper and periodical in Canada and to such persons and corporations as request one. After the report had been issued the inspector and his assistants should visit each company and make a thorough examination of the books and affairs in order to verify the accuracy of the annual statements sent in. If there are any irregularities discovered the offenders should be punished at once and in the following annual report a complete account of these irregularities, together with the necessary corrections in the former report should be given. In this way the annual report would not be delayed as it is now until near the end of the year following the one with which it deals.

This annual report, in addition to containing a detailed statement of the affairs of each company should also contain compiled information made up in such a manner as would enable any ordinary person to make a fair comparison of the efficiency of management and economy of all the companies doing business in Canada.

In addition to a strict regulation and supervision of the business of existing companies, there should also be established, in connection with the postoffice, a system of government insurance, similar to that which exists in Great Britain, and which would provide the industrial classes and others with small or large policies of sound insurance at the lowest rates possible. For the purpose of best adapting such a system to the needs and conditions of the people, a careful inquiry should be made among the leaders of industrial organiza-

tions and agricultural and other societies as to the needs and requirements of the people in this respect.

Fraternal societies should be assisted to establish adequate rates and to provide for a safe handling of their funds. They should also be encouraged to give particular attention to the sick benefit branch of their business.

A careful inquiry should be made both among trade organizations and manufacturing associations as to how best a system of accident insurance could be established, which both capital and labor might co-operate to maintain. Such a system would do much to protect the laborer and those depending upon him in case of accident. On the other hand, it would tend to do away with the practice, which is becoming very common in this country, of large corporations maintaining private detective forces. A few years ago a large Toronto corporation introduced this system, and it is now its boast that since adopting it the corporation has not paid a single claim on account of either death or injury by accident. This is not because such accidents have not occurred, but on account of the evidence produced at the trials or inquiries. This is a feature of such a system into which very many abuses may creep that will not only impose severe and unjust hardships on the laborers and their families, but is also sure to strain the relations that should exist between the capital and labor elements of any country. There is also great danger of such a system interfering with the respect which the people should have for the courts and laws of the country.

These are questions which Canada, young as she is, cannot afford to neglect. Almost in one generation the people have found themselves transformed from a condition where each family supplied the most of its own wants, both as regards clothing and food, to a condition where each individual depends upon others for his daily bread and clothing, while he in turn devotes his whole time to producing one article or

more often a part of one article. The tendencies in industrial life are towards specialization and co-operation. Under the new order of things the individual finds himself much more dependent upon the rest of the community than ever before. Under some circumstances this is an improvement on the old order, under other circumstances it is the opposite. Or to express this idea more fully in the words of an able writer on the subject, "So long as the individual can actively fill his place in this new order of affairs his condition shows greater improvements in many respects. The moment he gets out of harmony with the whirl of the industrial machine, however, the moment that sickness overtakes him or accident injures him or old age reduces his power to keep in step with the industrial march, his condition is likely to become incomparably more unfortunate than would have been the case under similar circumstances in earlier times."

Mr. Frank A. Vanderlip, writing on "Insurance for Workingmen" in the *North American Review*, says in part, as follows:

"The development of the workingmen's insurance idea in Europe has been, in large measure, the logical result of efforts to reform the law relating to the liability of employers for accidents to their employees. Under the old law the employer was responsible only for accidents which resulted directly from his fault or the fault of his agents, and he bore the consequence only after the injured employees succeeded in legally establishing the proof of that fault.

"With the growth of large-scale production and the introduction of complicated and dangerous machinery, the whole system became so complex that it was extremely difficult to trace responsibility. The result was that, as a rule, the full weight of suffering from an accident fell upon the injured employee. Here in America we have gone even further. We have perfected organizations for insuring, not the employee against accident, but the employer against liability. These

organizations are not to indemnify the injured, but rather to indemnify the employer for the costs of fighting in the courts the claims of the injured."

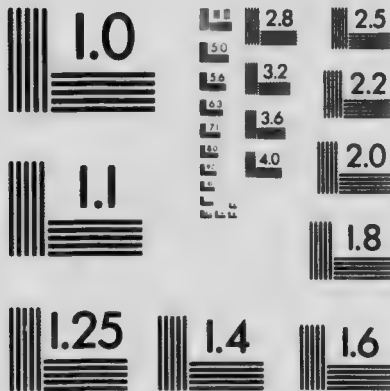
"Accident insurance, as developed in Germany, has been something more than merely the providing of an indemnity. It has been, in fact, an insurance against accidents. This definite placing of the responsibility for accidents has led to much study by employers and employees of regulations providing for safeguards. Such study has accomplished remarkable results in the reduction of the number of accidents, and has become a great economic factor in removing the danger from the industrial calling. Under the influence of this study, the frequency of accidents has been reduced one-half. Viewed from an economic standpoint alone, the saving which has resulted in the national economy has been a vast sum. We are strikingly careless of life in America. The statistics of railway injuries and fatalities are a disgrace. In the rush of our industrial expansion we have neglected to provide many of the obviously necessary safeguards. From whatever aspect we may regard the subject, we will, on any broad view of it, find that the adoption of some of the European regulations and safeguards will be of great national advantage.

"The second division of the German insurance system, and the one that seems to have most fully demonstrated its value, is the sick insurance fund. Apart from the more obviously advantageous features of the sick insurance system, there are others which are of the highest economic importance and well worth emphasizing. The system is having a profound effect on the whole physical welfare of the German nation. The general level of vitality, and hence of working capacity, is being distinctly raised as a result of it. The activities in the sick insurance field are not confined to the mere payment of the indemnity during a period of illness. The sick insurance not only makes it possible for a workman who is ill to take at once the necessary time for recovery, but it provides him with the



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best medical attention while he is ill; and, while in health, it gives hygienic supervision and instruction which are of the greatest value in preventing sickness. Under the operation of this system there is being spent, in the most intelligent manner, something like \$50,000,000 a year in the treatment and care of the sick.

"The testimony in regard to the value of the work done in the sick insurance system is almost universally favorable. It would be hard to calculate its economic importance, but it is so great that it has become one of the leading factors in helping Germany to the industrial pre-eminence which she is gaining.

"There is undoubtedly here and there ground for criticism. Lazy patients occasionally sham illness. There are workmen who would rather lie in bed with a small income than work for a larger one. But the principal effect of this sick insurance is of economic value in the industrial development of the German Empire out of all proportion to the burden which is laid upon employers."

It would be foolish to expect that Canada could by any laws that could be devised transform at once our present industrial condition into conditions similar to those existing in any other country. But what the writer does contend is that we are now at a point when a turn can very easily be made in the right direction. If that turn is made and a foundation laid according to proper principles of national economy the system will gradually grow and be improved from time to time in keeping with these first principles. There is no system that is so complete as not to require amendments to meet the needs of changing conditions. Even the German system the most advanced of all, requires to be reformed from time to time. Dr. Boediker has recently said of this system: "If we should send around German lands a memorial and enquire whether in case of sickness we should again pass the beggar's bag in factories, or whether in case of accident we should

return to the litigation procedure of former times, or whether we should again cast the invalids grown feeble in productive labor upon pauper relief, there is not a man who would answer in the affirmative. German workingmen's insurance would perish only with the German Empire, whose power and energy it augments, because it uplifts and strengthens the mass of the population; but it needs reform."

If the reader feels that these are questions which Canada can afford to dismiss without a proper consideration for some time longer, let him turn to the history of European countries or to a review of the existing condition in England and then turn to the history of New Zealand and learn for himself if it is not immeasurably better to grapple with these questions in the early stages than to wait until the situation becomes intolerable.

If the reader feels that there is no great need in this country for some system of accident insurance, that will bring capital and labor closer together by placing them on a common ground and will do away with the expensive litigation and private detective forces, which lead to the deliberate shooting down of able-bodied and earnest and well-meaning citizens, he has failed entirely to appreciate the larger aspects of the sad incident that occurred at Buckingham the other day.

If the reader feels that there is no great need for considering, from a national point of view, the question of properly looking after the health of the people and of carefully nursing the sick and injured back to their normal condition, he has failed entirely to appreciate the utter backwardness of Canada in this respect as compared with other countries, or to understand the economic and social value which the health of the individual is to the state.

Or further, if the reader feels that there is no necessity in Canada for providing some national system of old age pensions, or of considering the matter with which this deals

in its larger aspects he fails entirely to appreciate the meaning of such legislation as 3 Edward VII., Chap. 38, of the Ontario Statutes, which practically compels every municipality in the province of Ontario to build and maintain a poor house. In this matter Canada has waited until she is being compelled to take care of the product of her own system. When one reads such legislation as her insurance laws, together with such statutes as the one just quoted, he cannot help but be impressed with the fact that the one is the logical result of the other. From the standpoint of national economy both spell WASTE. From the standpoint of social science both spell RUIN.

